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BUSINESS ACCOUNTING

HAROLD DUDLEY GREELEY, C.P.A., *Editor*

Volume I—Theory of Accounts
By Harold Dudley Greeley

II—Constructive Accounting
By George E. Bennett

III—Cost Accounting
By DeWitt Carl Eggleston

IV—Advanced and Analytical Accounting
By Henry C. Cox

V—Illustrative Accounting Problems
By Charles F. Rittenhouse and Harold Dudley Greeley

Business Accounting

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VOLUME II

CONSTRUCTIVE ACCOUNTING

A Manual of System Building

By

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Certified Public Accountant; Professor and Director of the Department of Accounting, Syracuse University

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EDITORIAL PREFACE

Ten years ago almost any contribution to the literature of accountancy would have been welcomed. Today, however, with the increasing number of excellent publications, it is incumbent upon one who puts forth a new accounting work to justify his action. Much more is it necessary to explain the publication of a set of accounting books. Hence it is desirable to state at the outset the purpose of "Business Accounting" and to outline its scope and general methods of presentation.

While many books have been published on accounting topics, in almost every case they are unrelated volumes. In some few instances, a volume on accounting has logically followed another by the same author, but with these few exceptions every one published has been written without connection with, or adjustment to, any of those already existing. Under these conditions, the student of accounting, to get any connected and logical knowledge of his subject, must find one of his books here, another there, a third somewhere else, and bridge over the gaps between them as best he may. The process is difficult, and the accounting knowledge he obtains is not always well co-ordinated and logically developed.

The volumes of "Business Accounting" are intended to meet this situation. They cannot, it is true, provide a course of study in the sense that prescribed readings are recommended, written answers to questions required, and personal instruction given. Neither do they con-

stitute an encyclopaedia of unconnected and isolated articles. Rather are they an attempt to present in simple, non-technical language the basic principles of account-keeping and their application to various lines of business, together with general directions for preparing, analyzing, and interpreting accounting statements.

One who starts at the beginning of Volume I and works faithfully through to the end of Volume IV, and then solves the problems and examines the solutions of Volume V, should acquire some real understanding of the theory and practice of accounts—a knowledge that, supplemented by experience, should enable him successfully to stand the test of practical work in any ordinary business office and furnish a foundation for going as much further into the study of accountancy as he may desire.

It may be noted in passing that the volumes of "Business Accounting" have been indexed in such a way as to provide many of the features of an encyclopaedia, so that the person desiring the practice on a particular point or accounting ideas of suggestive value in particular lines of industry will be able to use the set to advantage.

Taking up the volumes of the set in order—Volume I presents the fundamental principles of account-keeping and statement preparation. Upon these basic principles all systems of account are built. Volume II explains the principles governing the development of the simple accounting procedures described in Volume I to meet the needs of more complicated and more extensive systems of financial accounting. Volume III explains in much the same way how the basic principles

have been applied to factory or cost accounting. Having thus traced the fundamental principles into more elaborate financial and cost accounting procedures, Volume IV treats accounting principles and practices which are more advanced than the basic ones described in Volume I. These advanced principles are in most cases subject to differences of opinion, as to their nature or application, among persons qualified to deal with them, and it is for this reason that their discussion is confined to Volume IV. Supplementing the illustrations of accounting principles and statement preparation, there follows in Volume IV a practical discussion of the methods of verifying accounts and statements and of their interpretation and analysis.

The set closes with Volume V, which gives a number of problems of a practical nature, together with their solutions. The working of these problems will not only clarify the reader's ideas but in many cases will provide models upon which he can base accounting procedures and build statements to meet concrete situations arising in his own work.

The readers to whom this set will appeal most strongly may be divided roughly into two classes. There will be, on the one hand, business and professional men, bankers, office managers, and other executives who feel the need of understanding in a general way the methods of modern account-keeping and statement preparation. There can hardly be excuse nowadays for them to consider bookkeeping methods and accounting statements as too complicated to understand or of such slight importance as to merit no attention. They need a grasp of the subject so that they may judge for themselves

whether bookkeepers and other persons who keep accounts for them and render statements to them are giving information which is accurate, adequate, and presented in the most intelligible form. The entire tendency of modern business and civic life is toward more exact accounting, of which the accounting requirements of the present income tax legislation are but one indication. Any person having substantial interests at stake should be able to appraise intelligently the stewardship of those to whom his interests are intrusted and the volumes of "Business Accounting" will give him the technical information this demands.

The other class of persons to whom "Business Accounting" will appeal is composed of those whose duty it is to keep accounts and to prepare statements. They should find in this set an inspiration and an aid to more intensive study, which in turn will result in improved accounting ability and an enhanced wage. The careful and intelligent use of these books will lead beyond question to increased power of service to employer and community.

HAROLD DUDLEY GREELEY,
Editor, Business Accounting Set.

New York City,
April 1, 1920

PREFACE

Within the past few years, many books have been written on the principles of accounting. But, so far as the author is aware, "Constructive Accounting" is the first attempt to present the principles of accounting construction as distinct from those of purely business operation. The work is intended to assist in the designing of appropriate business records and statements for a new enterprise, or for one already in operation that requires certain features of its accounting system to be replaced, modified, or improved.

The really qualified bookkeeper or accountant should be capable not only of performing the routine tasks of bookkeeping, but also of undertaking work of higher grade, requiring initiative and exact professional skill. He should know what defects, if any, are to be found in the system under his control and be able to correct these so as to secure for the enterprise a complete, understandable, and readily available record of its transactions with others, the cost of securing and handling the commodities in which it deals, its loss or gain in past periods, and its present trend. He should be able to build up a system that will, at a minimum of effort, do all this and at the same time secure a maximum of protection against error, omission, or fraud. It is in preparing the practitioner for such work that the author trusts the present volume will find a definite place.

In all accounting systems the underlying principles are, of course, the same, their application or combina-

tion varying with the requirements of the particular business. Recognizing this fact, the method of the present volume is to analyze the records and practices of ordinary bookkeeping and accounting and show how these may be combined and utilized to form a system adapted to meet special requirements. In doing this, the various forms of ordinary accounting records are examined and their special functions discussed so that systems built up from them will meet such requirements.

It has not been attempted to present in this book systems complete in detail. These must vary according to the circumstances of each business. But the outlines presented should give a basis for development. The points of difficulty most frequently met with in trading operations and the general conduct of modern business are the points of discussion in the systems considered. In passing from one to another of these, the aim has been to work from simpler systems to those of more complexity.

Accountants will naturally differ as to particular methods to be employed in each case. The author feels, however, that the plans and methods here presented—the result of experience, investigation, and consultation with professional associates—will, taken as a whole, be found helpful, practical, and in accord with best modern practice.

Criticisms, comments, and suggestions from those who use the volume will be most welcome.

GEORGE E. BENNETT

New York City,
April 1, 1920

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Constructive Accounting

Part I

Principles and Practice

CHAPTER I

INTRODUCTORY

1. Accounting Theory and Practice

Accountancy is a profession having to do with the recording, verification and presentation of facts involving the acquisition, production, conservation and transfer of values.

Accounting is the science which treats of the systematic record, compilation and presentation in a comprehensive manner of the financial operations of a business.

A system of accounting is installed, facts are recorded in this system, and statements are prepared based on the facts as recorded, so that persons interested may have a record of the business history of the particular undertaking to show them what has happened in the past and what may be expected to happen in the future. By means of these data it is possible to avoid costly errors, to correct mistakes, and so to shape the future course of the business as to make profits and avoid losses.

Accounting as described has both a theory and a practice. The theory is concerned with underlying principles; the practice applies these principles to specific cases and particular problems.

Theory without practice is useless and academic. Practice without theory is inconceivable. All practice which is useful is based consciously or unconsciously on

theory. Practical business men may at times express a contempt for theory, yet consciously or unconsciously they rely upon it to secure results.

2. Place of Accounting in Organization

Business organizations, which are distinct working units, carry on business projects. Ownership and control of a business organization may be held by:

1. An individual.
2. Individuals associated as partners.
3. Individuals grouped as stockholders of a corporation.

Whatever may be the form of ownership and control, the problems of paramount importance are:

1. Capitalization. Every organization must gather and hold in a common fund capital sufficient for its permanent and current purposes.
2. Working organization. Every organization must use its capital effectively. It must attract, organize, and direct physical and mental effort. Otherwise, its working activities are paralyzed.

The problems of accounting, operative and constructive, constitute one phase of the working organization, for without records it would be impossible to control any business. The discussion of accounting problems involves occasional reference also to other phases of the working organization which are inseparably connected with the accounting and which are therefore discussed in the present volume.

3. Necessity for Proper Accounting System

An effective system of accounting is essential to a business concern for the following reasons:

1. To ascertain the financial position as at any desired moment of time — the possession of values, the liability for values, and the resultant net equity or capital of the proprietors. The net equity or capital is measured by the excess of values possessed over the outstanding liability to third persons for these values.
2. To ascertain, for any period of elapsed time, the underlying causes for an increase or decrease in the capital at the end of the period as compared with its amount at the beginning of the period.

Improper account-keeping may result in paying higher income tax assessments than are necessary. Further, if proper financial statements cannot be prepared the securing of new partners or stockholders and of bank credit will be influenced adversely.

4. Branches of Accounting

The subject of accounting may be divided into three branches:

1. Constructive
2. Operative—recording
3. Inspective—analytical

Constructive accounting logically comes first, but actually it has been developed last. As a matter of practical convenience the other forms may be defined first.

5. Operative and Inspective Accounting

The function of recording or operative accounting, the second of the three branches, is to make correct entries of business transactions in books of account designed for that purpose. This branch of accounting, known as bookkeeping, has been discussed in Volume I of the present series.

Analytical or inspective accounting, the third of the three branches of the subject, is concerned with ascertaining the correctness of:

1. Bookkeeping entries from the standpoint of:
   (a) Technique
   (b) Principle
2. Statements prepared from these bookkeeping entries by means of:
   (a) Audit
   (b) Special investigation

Under its normal name of "auditing," this third branch of accounting is made use of for the purpose of discovering:

1. Errors of technique
2. Errors of principle
3. Fraud

Analytical accounting is discussed in Volume IV of the series. It need receive attention now only so far as it involves the verification of accounting records, and so far as findings thereunder are presented in statements and reports. The desirability of devising accounting records and procedures so as to give the best possible automatic protection against error and fraud must always be kept in mind. Protection and control

by means of the regular office machinery is much more desirable than that secured by positive individual exertion; the latter tends to break down under the pressure of business.

6. Function of Constructive Accounting

Constructive accounting, the subject of this particular volume, concerns the devising and development of such instrumentalities—books, records, etc.—as a particular business requires in order to put into operation an effectual accounting system. It also involves the use of statements.

Constructive accounting may be concerned with an organization which is entirely new, or it may be concerned with an older one which needs its account-keeping reorganized.

As applied to any specific organization under consideration it is concerned with:

1. Determining the account classifications, by means of which the accounts that are to be used are stated and explained.
2. Designing the account books so as to secure the best possible method of account-keeping for recording financial transactions; this contemplates:
   (a) Books of original entry, in which the debits and credits of each transaction are displayed first in their relation to the account classifications as agreed upon.
   (b) Books of subsequent entry (ledgers), in which the debits and credits of each

transaction are collected together under account headings, as decided upon in the classification of accounts, and by means of which business information is made available for statement purposes.

3. Preparing the periodical statements necessary to show interested persons:
   (a) The financial position of the concern at the close of the accounting period.
   (b) The reasons for changes in this financial position from the beginning of the accounting period.

REVIEW QUESTIONS

1. Distinguish between the theory and the practice of accounting.
2. Why is an effective system of accounting essential to the success of a modern enterprise?
3. Describe the chief branches of modern accounting.
4. As applied to a specific organization, what is the function of constructive accounting?
5. What natural ability and specific training must a person have to be able to install a proper accounting system in a given business?

CHAPTER II

THE WORKING ORGANIZATION

1. Scope of Working Organization

The working organization of a business enterprise is responsible for the actual conduct of its business activities. It is formed by the grouping of duties involved in the operation of the concern, and the assignment to individuals of the respective responsibilities connected with these duties. In a well-organized and well-conducted business, the various offices of all grades should be filled by these individuals according to ability; proper training in the various operative duties should be provided so that the internal machinery of the organization may run smoothly; proper steps should be taken so that all responsible officials shall have understudies and that vacancies as they occur may be filled by promotions of qualified subordinates; and the lines of authority should be laid out so they do not overlap. It is the ideal that every person—officer or employee—shall be placed in his or her proper niche. In short, everything is to be planned so as to produce the most effective operation throughout the organization. The object to be kept in mind at all times is to secure the largest results in return for the expenditure of effort and capital.

It is the purpose of this chapter to consider some of the principles connected with this matter of internal organization.

2. Fundamental Divisions of Business Operation

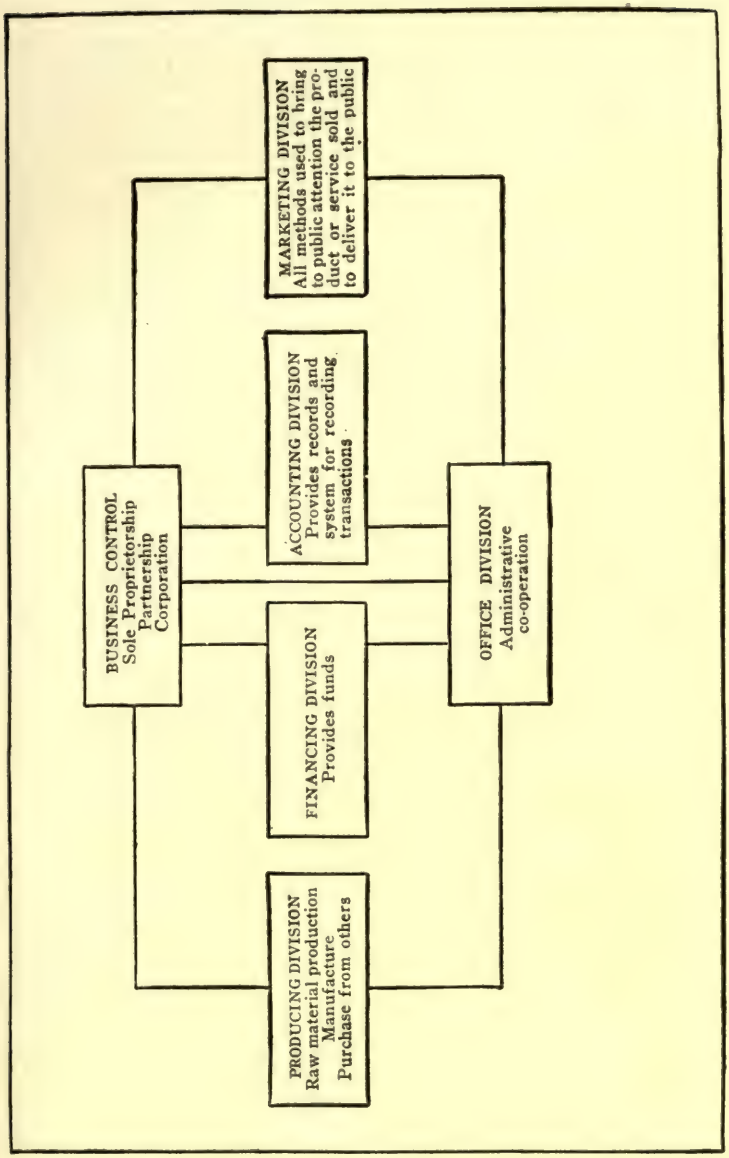
The two fundamental operations of business are: (1) producing and (2) selling. Any group of persons engaged in producing or selling, or both, is a business organization.

1. The producing division or department secures the raw material and manufactures the commodity that is to be sold, if the organization be a manufacturing one. Those who control the manufacturing must produce at the lowest possible cost, in the shortest period of time, and in the most salable form. In the case of a trading concern, the production department is that part of the organization which finds and buys the goods that are to be sold again. In every line of business, as a matter of fact, there is something which corresponds to the production division of a manufacturing concern, although in some cases the distinction may not be at first apparent.

2. The sales division takes charge when the manufactured or purchased article is ready for sale. Its function is the marketing of the commodities made or bought by the production division. It must find the customers, and by advertising, salesmen, and correspondence must sell the goods. The advertising function is an important, sometimes the most important, activity of the sales division.

3. Subsidiary Departments

To the two fundamental divisions of business operation mentioned above may be added the subordinate departments of financing, accounting, and office administration, existing separately or combined.



Form 1. General Organization Chart

The financial department of a concern provides the funds, arranges for credits, and negotiates such loans as may be necessary to carry on business operations. In Form 6 (page 22) the financial department is not shown as a separate department, as in the diagrams preceding, but has been merged into the activities of the board of directors.

The accounting department records all the company's financial transactions. Periodically it tabulates and presents in an intelligible form the results of these transactions. These tabulated results form the basis for determining future activity and outlining prospective business policies.

The office administration of a concern must take care of all clerical detail throughout the whole of the organization. It may be a separate department of activity controlled by an office manager, or its functions may be scattered among the various departments, each conducting its own clerical activity independently.

The preceding chart (Form 1) presents in graphic form the usual division of the operating functions of a business.

4. Types of Business Control

In every organization the element of first importance is that of ownership. This ownership, which may be vested in a single individual or in one or more individuals united in the form of a partnership or corporation, constitutes the primary source of authority and control. All departments of the business are subject to the control and supervision of the proprietor, even though each department may be in immediate charge

of a manager. The owner may be in direct contact with his managers at all times, or he may have them as a group between himself and the organization, allowing this group to exercise general authority in all organization matters. In such event, the owner is relieved of personal supervision.

The chief types of business control are these:

1. Individual proprietorship
2. Partnership
3. Corporation

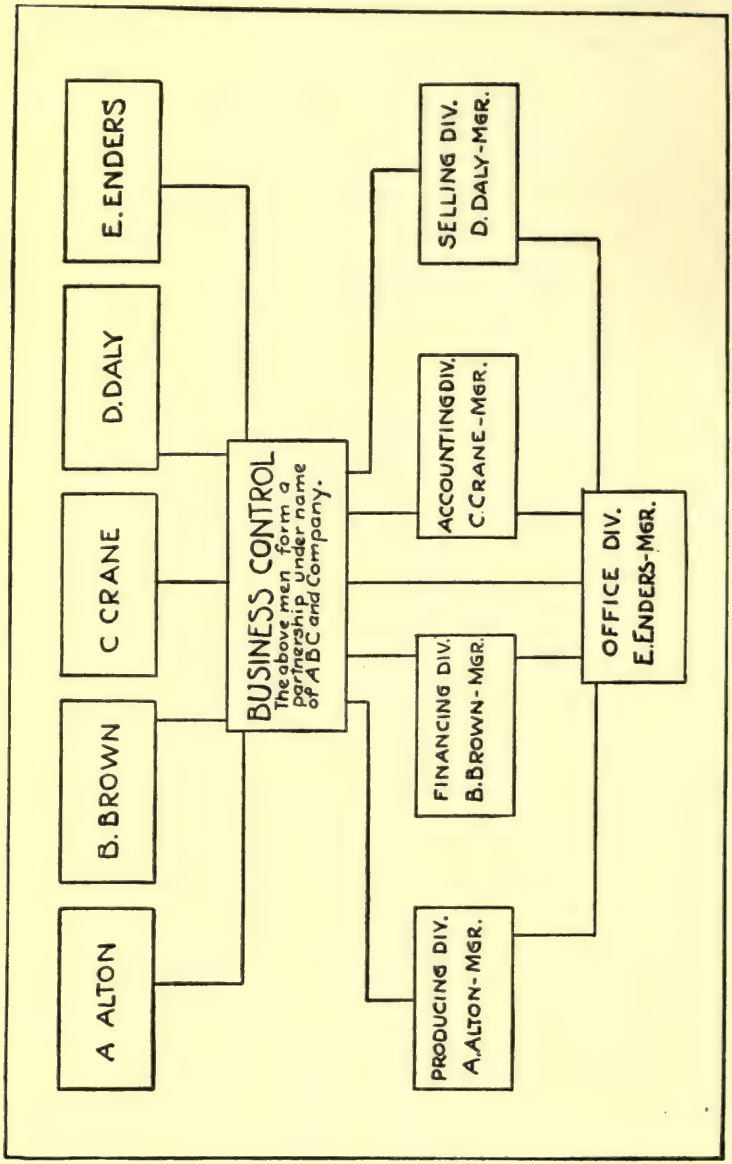
Individual proprietorship requires no special discussion here, as it is the simplest and oldest form of business control. The peculiarities of partnership and corporate businesses will be briefly outlined here.

5. Partnership Organization

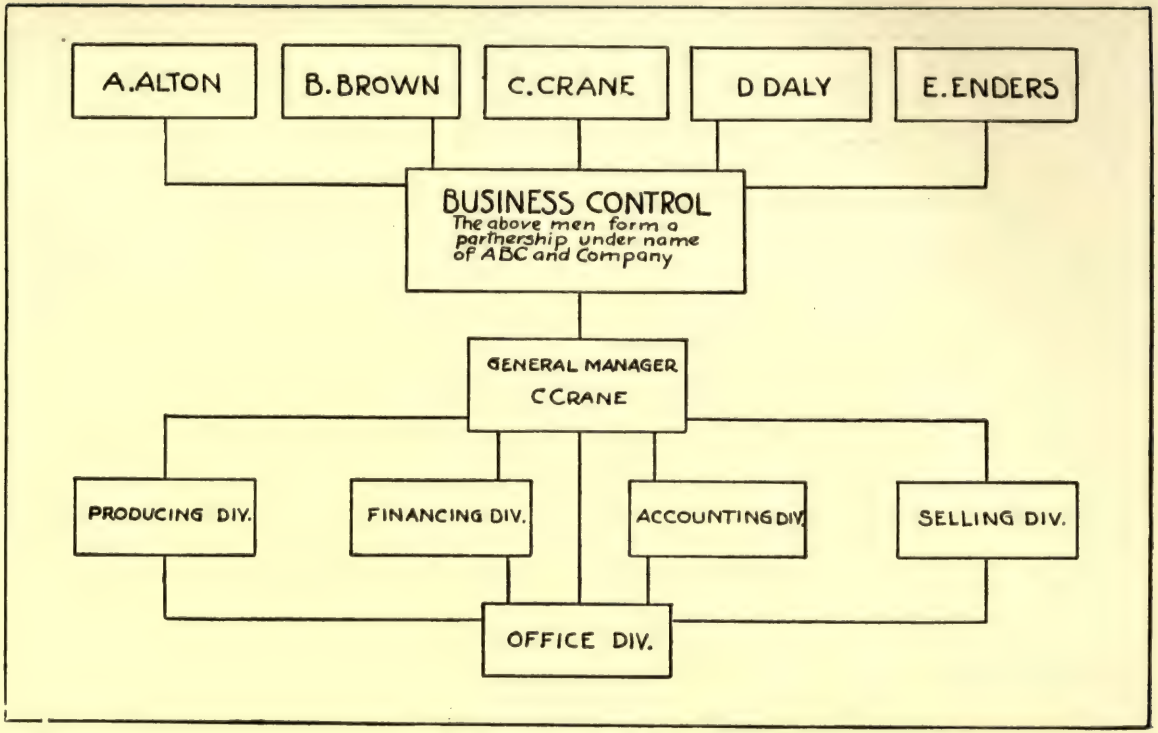
In the partnership form of organization the individuals who are bound by the partnership agreement are the controlling factors. Their method of managing the concern is usually specified and possibly limited in the partnership articles themselves.

These articles (1) may provide for a division of duties and authority among the various partners; (2) may delegate the entire management to one partner, the others being inactive in management; or (3) may provide for a committee of partners, under whose control and authority the managers of each of the divisions of the concern carry out their duties.

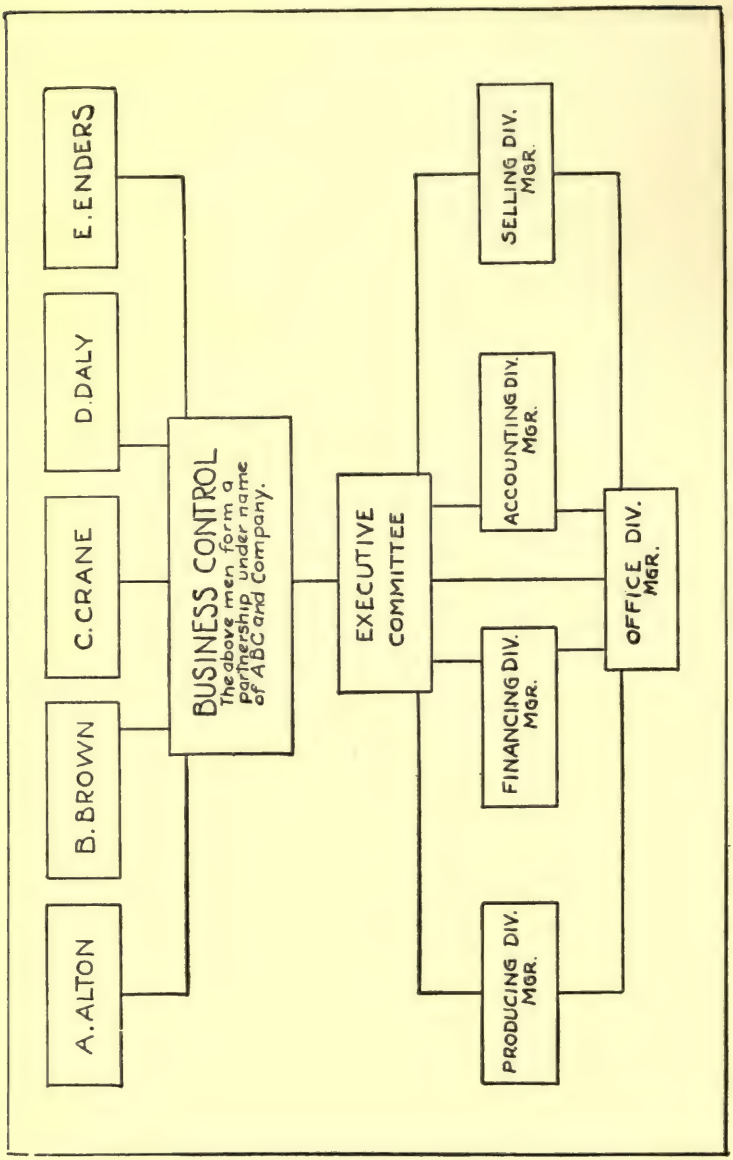
The following three diagrams (Forms 2-4) illustrate partnership control as related to the working organization:



Form 2. Partnership Control Chart—I



Form 3. Partnership Control Chart—II



Form 4. Partnership Control Chart—III

All partnerships should be based upon a written agreement setting out clearly the rights and duties of each partner. Such an instrument intelligently prepared will avoid most of the misunderstandings that arise between the members of a copartnership.

The accountant is not supposed to draw up partnership agreements—that is properly the work of a lawyer—but he should know what essential features should be provided for in such an agreement. These features may be summarized as follows:

1. Names of parties to the agreement
2. Name of partnership
3. Nature of partnership business
4. Location of partnership business
5. Date of commencement
6. Duration
7. Partners' investments
8. Partners' rights and duties
9. Sharing of profits and losses
10. Salaries
11. Interest on investments
12. Drawings
13. Account books and records
14. Auditing of books and records
15. Dissolution

6. Partnership Accounting*

The books of a partnership vary but slightly from those of an individual engaged in the same line of business. The records and routine entries are identical

* For a discussion of partnership accounting see Volume I of "Business Accounting."

—for purchases, sales, cash, etc. The distinguishing features of partnership accounting as compared with single proprietorship accounting concern the following:

1. Partners' capital and personal accounts
2. Opening entries
3. Closing entries
4. Dissolution entries
5. Retiring partner entries
6. Admission of new partner entries

7. Corporate Control

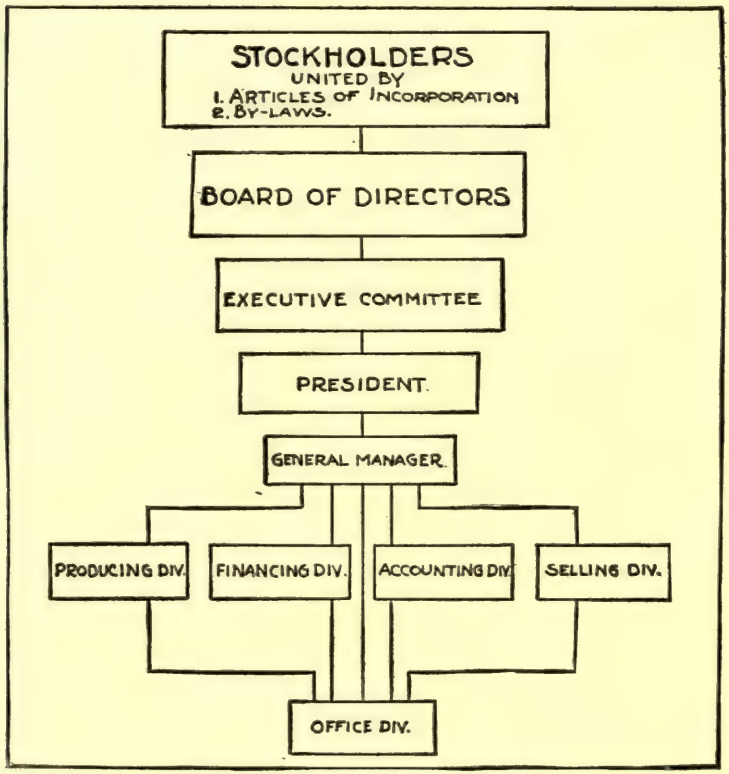
In the corporate form of organization the stockholders are the ultimate source of control. They are bound by the terms of the articles of incorporation, their by-laws, and the statutes of the state. The board of directors is elected by them annually. The board of directors, after appointment, chooses the officers of the company. It may, as a body, concern itself with the many details of the organization, but the chances are that it will leave these mostly to the president or general manager, to whom much of its authority will be transferred. The president, or a director, or some outside person, may be made general manager of the corporation. The general manager will be given full authority for the usual conduct of the corporate business subject to supervision by the board.

An executive committee may be formed of members of the board of directors, to whom the authority of the board of directors will be given when the board is not in session. In addition to the executive committee, a financial committee may be formed, composed usually of the department executives and at times someone from

the outside who is connected with a bank or other financial institution with which the company does business. These two are known as standing committees. Definite rules must be formulated to prevent any of these bodies from opposing the general policy of the company.

The powers and duties of the executive officers—the president, treasurer, and secretary—are prescribed in the by-laws and in some cases are very extensive.

The following diagram (Form 5) illustrates corporate control as related to the working organization:



Form 5. Corporate Control Chart

8. Corporation Accounting*

All corporations are formed in accordance with statutory law. In New York any body of men who comply with the provisions of a general statute, known as the Business Corporations Law, may form a corporation. This statute and similar enactments in other states standardize corporation procedure.

Many of the books kept by a corporation are similar to those kept by sole proprietorships or partnerships engaged in that particular line of business. But in addition, corporations also employ various auxiliary books and records which the others do not. These books and records are:

1. Subscription book
2. Stock book
3. Minute book
4. Stock certificate book
5. Stock ledger
6. Transfer books
7. Dividend books

No accounts with individual stockholders are kept in the regular books of account. Such a record is kept in the separate book known as a stock ledger. It is in this particular that the account-keeping of a corporation differs greatly from that of a sole proprietorship or a partnership.

9. General Lines of Organization

Whether the form of ownership be that of the sole proprietor, the partnership, or the corporation, there is

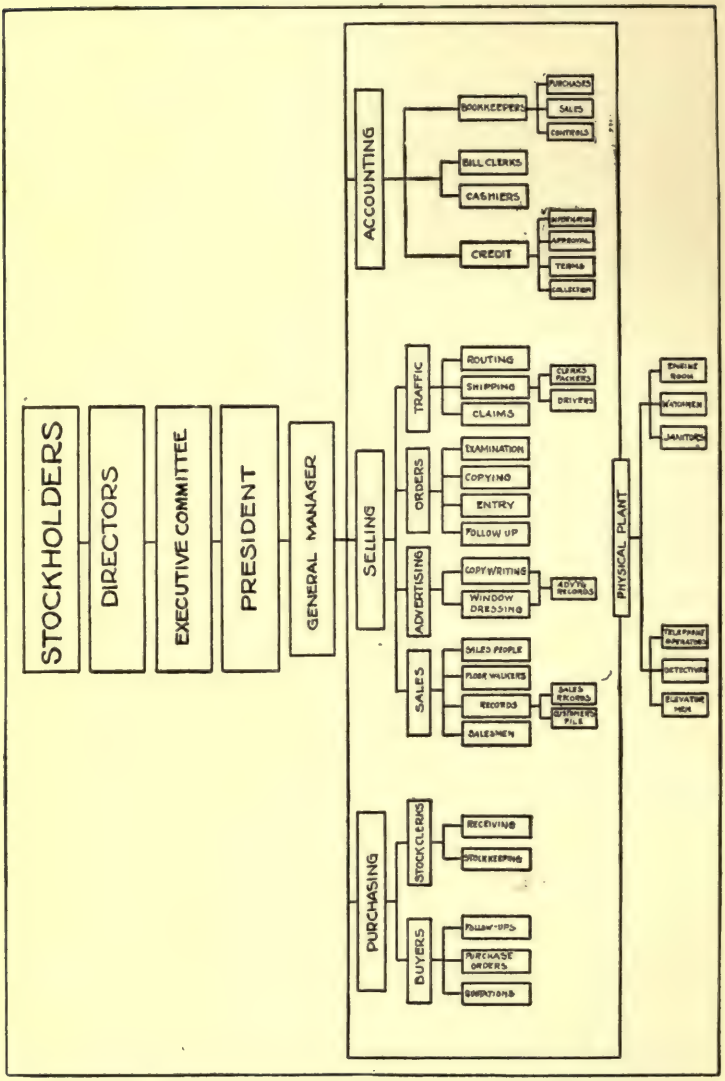
* For discussion of corporation accounting see Volumes I and IV of this series.

a marked sameness in the general lines of organization of every business. Every organization of whatever complexity will be found to come under some one of the forms presented above. The nature of the business will determine how it will be organized. Sometimes, to be sure, it is difficult to separate clearly the work of each department, as one person may be connected with two or more divisions of work in one way or another.

The general subdivision and co-ordination of the usual departments, showing how the business functions in general are related to one another, are indicated in the following diagram of a concern operating under the corporate form of ownership. Although certain shifts may be made under certain conditions, the general form will be as here given. As has been said, the financial department may be merged into the activities of the board of directors, of which the treasurer is usually a member.

10. The Organization Chart

When a business is started, care must be taken to work out its organization as fully as possible. All the individuals must be united in such a way as to form one working body for carrying through the object of the enterprise. A carefully made organization chart will serve as a useful working plan from which to build the administration and devise the accounting required. In constructing such a plan, the basic consideration is to follow the movement of the product through the organization, from the moment the need for its production or purchase is reduced to a written order to the time it leaves the place under sale to a customer.



Form 6. Organization Chart

In any organization one finds the work to be of two kinds:

1. Routine
2. Executive

The routine work should be done exclusively by the clerical force, the executive work by those in positions of executive capacity. To carry out this idea properly, duties must be divided and apportioned between units in the organization and departments, and the persons located in these different positions. The organization chart (Form 6) shows the channels through which flows the authority going from the chief executive down to the employee of least importance.

Such a chart, when tied up to a complete procedure and set of rules of a permanent nature, written in simple, clear-cut English, is very valuable. When once laid out, a copy should be in the hands of every person in authority. Everyone in the organization, by an examination of the chart and rules, then knows where he belongs, to whom he is responsible, and what are his duties. This eliminates confusion and friction, and promotes a smooth working of all the organization parts.

REVIEW QUESTIONS

1. Distinguish clearly between the legal and the working organization of a business.
2. Distinguish between the two fundamental operations of producing and selling as applied to each of the following types of business:
   (a) Manufacturing
   (b) Trading

(c) Professional
(d) Life insurance

3. In what different ways may partnership articles provide for partnership control as related to the working organization?
4. Compare the distinguishing features of partnership accounting with that of single proprietorship accounting in the same line of business.
5. Compare partnership control with that of corporate control as applied to the working organization.
6. Compare the distinguishing features of partnership accounting with that of corporation accounting in the same line of business.
7. Construct an organization chart for any business with which you are familiar.

CHAPTER III

DEVELOPMENT OF RECORDS

1. Accounting Records

As stated in Chapter I, constructive accounting is concerned with devising and developing books, records, etc., necessary in a particular business to put into action the theory of double entry.

Business accounting is concerned with:

1. Property. The capital of the business—land, buildings, machinery, cash, etc. These accounts represent assets.
2. Persons. That is, all persons having dealings with the business, including partnerships and corporations. Such accounts represent either assets or liabilities.
3. Economic progression or retrogression. That is, income or expense. Nothing tangible being involved in these accounts, they are in a sense abstract.

Business records follow the ins and outs of business transactions. Therefore, the double-entry records considered in this volume deal with the three phases of the subject that have been indicated.

2. The Simple Triad of Records

Bookkeeping may be carried on in a scientific manner with only a few books. Whether the number of

records be many or few, the principles underlying their construction and use are similar. The evolution of accounting records from simple to highly systematized forms has resulted in accounting methods not necessarily more accurate than those of the past, but which are more economical. One bookkeeper at the present time may be able to do the work of two bookkeepers of the old school, although his work will show no greater precision than did theirs. The three books which are fundamental are:

1. The Day-Book. The old-fashioned day-book, which preceded the journal, was almost the simplest kind of bookkeeping record that could be devised. Here was set down in detail an explanation of every transaction, each explanation occupying a complete paragraph. Such a record was valuable as evidence, since it was original in character, and was written up at the time of the transaction.

2. The Cash Book. A cash book was used in connection with the day-book, so that an accurate check could be kept on the actual money in hand. In appearance the simple cash book was a day-book given over entirely to a record of cash transactions.

3. The Ledger. Since the business man found it a most laborious task to search through the pages of his day-book and to pick out the various items required to make up an account, a new book was developed to group these scattered items. This book, known as the ledger, became the third member of the simple triad. In the ledger all the items found in the day-book and cash book were classified and rearranged according to persons, property, expenses, and gains. Placing the day-book

and cash book items in their classified groups in the ledger is called "posting." Cross-indexing, that is, entering in the ledger the numbers of the pages of the day-book and the cash book from which items have been taken and entering in the books of original entry the pages of the ledger to which postings have been made, is called "inserting folios." The day-book and cash book are both books of "original entry," and their records are accepted in courts of law as evidence as to the matters therein set down. The ledger is not accepted in the courts as an original record.

The three records mentioned—the day-book, cash book, and ledger—are the bases for all account books in use. All others are but modifications and developments of these three, regardless of their form and whether loose-leaf or bound. Unless this is clearly understood the discussion of the day-book, cash book, and ledger in Volume I should be carefully reviewed. Otherwise the difficulties encountered in a study of the more specialized books may prove insurmountable.

3. The Development of Books of Original Record

The simple journal is a development of the day-book. In the journal the entries from the day-book were drawn off and arranged to show their debit and credit character prior to being posted to the ledger. Gradually, the day-book and journal were consolidated; the resulting record is the present form of simple journal. At first the journalization was written below the day-book entry, but subsequently, it was found more convenient to place the journalization first with the day-book entry beneath. From this arrangement

was developed later the method of placing the journalization at the left of the page and the day-book explanation at the right of the journalization and parallel with it.

The columnar journal was evolved from the combined journal and day-book. The appearance of the columnar journal is similar to that of the simple journal, except that in the former there are special columns in which to place or group similar entries. By this method one lump total may be posted at the end of a posting period instead of a posting being required for every individual item contained in a column. The saving of time and labor resulting from this method is very great. As will be shown subsequently, the column principle can be made use of in connection with any account or class of accounts. The only restriction upon its use is the fact that at times a point is reached beyond which the maintenance of a special column entails more work than posting the individual items.

The column principle is utilized in the separation from the journal of the cash book, the purchase book, the sales book, etc. These records are each made by taking out from the journal the special columns for cash, for purchases, for sales, or any other group of like transactions, and using them in the same way in a separate book. Such separated records are but parts of the journal, each with columns for the particular class of transactions that give the new book its name.

In the evolution of the cash book, for example, there was first a journal column for cash receipts on the debit side of the journal, and a similar column for cash payments on the credit side of the journal. Then these

two journal columns were for greater convenience bound up separately in a special record called a cash journal or a cash book.

The development of other original records proceeded in the same manner. For example, the merchandise debit column was taken from the columnar journal and became the separate purchase record; the merchandise credit column became the separate sales record. To each of these records special columns have been added for various purposes, and under some circumstances these records in their turn have had certain transactions taken out for entry into a new separate record; for example, returned sales are at times kept separate from regular sales, and are not debited to the latter in the accounts.

Each segregation of a group or class of transactions strips the journal of certain entries and therefore reduces its size. Today only items which cannot be entered in one of the separately kept records are placed in the journal.

4. Development of Ledger Records

The purpose of the ledger is to classify and rearrange the items of information found in the records of original entry, so that instead of being arranged by transactions, such items will be grouped according to accounts—according to each person, parcel of property, or business element concerned. A ledger presents a convenient summary of business transactions.

In the ledger a definite amount of space is allotted to each person, or parcel of property, or subject matter with which it is desired to keep an account. In this

space are collected all debits and credits relating to the account assigned thereto, the debits grouped in one column and the credits in another. The total debit, or the total credit, of an account may be secured at any time by merely adding together the amounts in the proper column. To secure the same totals direct from the original records would necessitate running through innumerable pages, picking out one item here, another there—a most irksome task. Moreover, this method could give no certainty as to whether every required item had been found.

The relation of the accounts to each other, or to some other account to which they refer, determines the size and content of the ledger. In large establishments a number of ledgers may be kept, but regardless of their number they are handled as sections of one ledger.

The labor-saving devices used in connection with the ledger are not many. One of them, however, needs special consideration because it is of great value. This device is the controlling account which was described in Volume I of this series. The controlling account device is available for many groups of accounts, as exemplified in the special plant ledger, the expense ledger, and the well-known customers and creditors ledgers.

For general purposes the simplest form of ruling for ledgers is preferable. Occasionally, however, as will be brought out in detail later, specially ruled ledgers are advisable.

5. Arrangement of Entries

All original entries should be so arranged in the accounting records that no items can be inserted after

the books have been regularly written up. A fraudulent insertion should be impossible. A cash book entry, for example, should occupy only one line, no blank lines should be left between entries, and after the last entry on the page has been made any remaining blank space should be ruled out by diagonal lines.

REVIEW QUESTIONS

1. Define constructive accounting.
2. How many books and records are necessary in an accounting system?
3. What are the bases for all account books in use?
4. What is meant by the column principle?
5. What determines the extent of the ledger?
6. What precaution should be taken in the arrangement of the records of all original entries?

CHAPTER IV

THE SURVEY

1. Preliminary Considerations

To devise the simplest and most useful system of books in each case requires, first, a clear mental conception of the principles of accounting; second, a full understanding of the demands of the particular business for which an accounting system is desired, and third, the ability to apply the general principles to the solution of the specific case.

The knowledge of accounting principles being assumed, it is necessary to take such a survey of the business as will indicate in any case the records that should be kept. This chapter is devoted to suggestions for making such a survey. In addition, miscellaneous points are discussed which should prove useful in developing confidence and a line of attack in doubtful cases.

2. Object of the Survey

The first step is to fix in mind the purpose for which the survey is made. Is it the intention, for example, to put in an entire new system of accounts, or merely to change certain elements in an existing system? The purpose when determined will indicate the information which must be secured, and the sort of transactions which are to be analyzed. The search for matters requiring improvement will be guided by this purpose and pertinent facts will not be overlooked.

The kind of information desired in general may be outlined as follows:

1. A comprehensive understanding of the nature of the business.
2. The manner and methods of conducting the business.
3. The nature of the transactions.
4. The practices of the accounting department in recording the transactions.
5. The practices followed by departments other than the accounting department, and by the executives.

3. Character of the Business

Alike in planning a new system and in revising an old one, the character of the business is the most important feature to be considered. Knowledge of this gives an insight into matters to be provided for and the records required to take care of these matters. When this point is reached, it should be easy to determine what other features must be considered in preparing a system of accounts to record the transactions of the business in the best way.

The work of a trading business, for instance, consists of buying, selling, and the handling of accounts and cash involved in these operations. It is necessary to find out how these activities have been recorded. The following questions must be considered:

As to buying:

Who does the ordering?

What books are used in which purchases and

transactions incidental to purchases are recorded?

How are returned purchases handled?

Are discounts taken? In what way? Under whose supervision?

As to selling:

What books are used in which sales and transactions incidental to sales are recorded?

How are these records analyzed and summarized?

What checks exist against errors in shipping goods and charging a customer?

Are discounts given?

As to cash:

Who is in charge of the cash?

What checks and restrictions exist in relation to him?

How are the cash receipts handled?

Through what channels do the receipts come, and what check exists in relation to them?

How are cash disbursements handled?

What persons approve cash payments?

How is the petty cash handled? What is its relation to the general cash?

4. Trading and Manufacturing Records Compared

Special attention must be given also to the records peculiar to the business under survey, while those of a general nature, common to all concerns, need no particular consideration.

For example, compare the records of a trading concern with the records of a manufacturing concern.

In a trading business purchases and sales are the

salient features, and these are recorded in books peculiar to a trading business—purchase and sales journals and ledgers. In addition, books common to all business houses will be found—cash books, journals, ledgers.

In a manufacturing business raw materials and supplies are purchased, manufacturing is carried on, and the product is sold or shipped to agents who will sell it. Books will be found in which these operations, peculiar to manufacturing concerns, are recorded. Likewise there will be found the books common to all business houses.

In each class of business establishment attention should be directed to the records peculiar to its operations. It is impossible in this book to describe all kinds of businesses. The viewpoint is the broad one. Any specific problem must be studied in detail in the light of the broad principles presented.

5. Books in Use

A list of the books used in the particular business under survey should be prepared. For example, various combinations of the following may be found:

General ledger
Purchase ledger
Sales ledgers (sectionalized)
Doubtful accounts ledger
Petty accounts ledger
Private ledger
General journal
Purchase record
Returned purchase record
Private journal

General cash book
Petty cash book
Notes receivable register
Notes payable register
C. O. D. sales record
Consignment sales record
Check book (one for each bank)
Order register
Receiving book
Stock book
Shipping book
Sales record
Returned sales record
Approval sales record
Inventory record
Pay-roll book
Trial balance books (one for each ledger)

Being concerned now with the peculiar features of the business under consideration, the records found should be arranged into groupings of:

1. Buying
2. Selling
3. Cash
4. General control

to determine whether each group is complete. If the list as given above be taken, the rearrangement will be about as follows:

1. Buying
   Order register
   Receiving book
   Purchase record

Returned purchase record
Purchase ledger
Trial balance book

2. Selling
   Stock book
   Shipping book
   Sales record
   Returned sales record
   Approval sales record
   C. O. D. sales record
   Consignment sales record
   Sales ledgers (sectionalized)
   Trial balance book (sales ledgers)
   Petty accounts ledger
   Doubtful accounts ledger
3. Cash
   General cash book
   Petty cash book
   Check book (one for each bank)
   Pay-roll book
4. General Control
   General journal
   General ledger
   Trial balance book (general ledger)
   Private journal
   Private ledger
   Trial balance book (private ledger)
   Inventory record
   Notes receivable register
   Notes payable register

After the schedule of books has been revised and the books have been arranged according to the features

of the business, the purpose of each record should be noted in writing following its name. It will then be possible to determine readily if any needed records are missing, or if any in use can be eliminated. In addition to the schedule of records, one must take into consideration the various forms through which the transactions reach the records.

It is not necessary nor always desirable to lay out a full and definite program of procedure at the beginning. As the work develops, good judgment will dictate the order in which revision can best be effected.

6. Accounts in Use

With a definite idea of the books and methods of conducting the business, a glance at the trial balance will reveal the accounts kept and will show the way in which they have been subdivided. When the trial balance is properly arranged, the accounts should be grouped in the following manner:

1. Personal accounts (individuals and companies)
2. Impersonal accounts:
   - (a) Real (assets other than personal accounts receivable)
   - (b) Nominal (income and expense)

By devoting sufficient consideration to the accounts which are already in use, much assistance may be secured in determining the features of the business which should properly predominate.

The profit and loss account should also be examined in this connection. If the accounts have been grouped as has been indicated they will bring out business facts

in their true light, whereas an improper grouping and combining may hide important features in the business. It is necessary, too, to carry enough accounts for this purpose and yet not too many. Subdivisions may be made so minute that the facts they set out are valueless.

7. General Rules for Dealing with Specific Cases

In the solution of the accounting problems connected with an organization, certain rules may be observed which will be of assistance:

1. Carefully examine the business situation concerned from all angles of approach.
2. Grasp the principles embodied therein.
3. Be certain that the object of the work is understood.
4. Study the doubtful points with great care; dispose of those not doubtful; and decide how the doubtful points are to be solved.
5. Assemble all deductions into a tentative plan for solving the difficulty.
6. Examine this plan to see if a solution really has been reached; compare this solution with the manner in which such a case at present is handled; if the new solution is not an improvement over the old one, or if it does not fill the needs it is designed to meet, commence again at the beginning to see what phase of the matter has been overlooked.
7. Before a solution is accepted as final, ask the three following questions concerning it:
   (a) Is it what is needed?

(b) What will it cost to carry into effect?
(c) Is its cost justifiable?

8. Working Papers

During the course of the investigation information of many sorts is gradually collected bit by bit and reduced to writing. These notes, consisting of memoranda, account analyses, etc., desirable to have at hand in working out the case, are often rich in detail, and form the basis for the final recommendations as to changes to be made. They are known as "working papers."

Before beginning the survey, the existing methods of the office should be put into writing so that the work of revision may be planned to interfere as little as possible with the regular office routine. A complete list of the books at present in use should be made, and, in connection with each existing record, notes should be made to show the part it plays in the system as a whole. The duties and functions of the various employees engaged in keeping the records should likewise be set out. Notes should be made also concerning the methods of entering and filing orders, invoices, receipts, etc.

Frequently an account must be analyzed under different heads in order to determine its elements, so that the present classification of accounts may be changed, or perhaps so that the existing rulings of certain records now in use may be altered. Analysis paper, that is, journal-ruled paper containing a number of columns, anywhere from 12 to 30, is best adapted for this purpose, although ordinary journal paper will us-

ually serve. Legal cap paper is excellent for note-taking. Cross-section paper is useful in building up forms of statements, statistical matters, and record rulings.

All the paper used should be of good quality, adapted for either ink or pencil. In making notes and analyses, it is better to use pencil than ink in order to permit of erasure and rearrangement as the work progresses. One can work with pencil more rapidly than with ink and working papers written in pencil may be quite as neat in appearance as those written in ink. To avoid confusion only one side of the paper should be written on.

REVIEW QUESTIONS

1. What is the importance of knowing the object for which a survey of a business is to be made?
2. Why is it important to know the character of the business under survey?
3. Prepare a schedule of questions as a guide in the examination of the purchase division of a manufacturing plant by means of which an examiner may both classify his information and be kept from overlooking more or less important details.
4. Prepare a list of records you would expect to find in a:
   (a) Wholesale grocery
   (b) Small country bank
   (c) Automobile tire factory
5. What general rules would you observe in the solution of any given problem?

CHAPTER V

PLANNING AN ACCOUNTING SYSTEM

1. Outlining a Plan

With the preliminary suggestions in the previous chapter as a foundation, the steps necessary to the planning of a system of accounts may now be outlined. In planning a new system, while the fundamental transactions can be ascertained and provision made for their record, there may be others not so easily anticipated. Accordingly until experience has shown the exact nature of the transactions to be recorded, the new system is tentative only. For this reason it should be constructed with an eye to possible alterations.

Simplicity in records, forms, and routine should be prescribed so that necessary modifications may be made without the system as a whole being essentially changed.

Moreover, since business conditions are changing daily, flexibility in a system is a desirable feature. The chief point to take care of in the first year's policy may not be the same as that of the following year. A system may be considered as permanently established only after sufficient time has elapsed to make it possible to determine the relative importance, one to the other, of the various details of the business.

In the beginning no attempt is made to answer questions pertaining to forms of vouchers, checks, debit and credit memoranda, etc. These details are important and must eventually be handled satisfactorily, but

they are not the basic principles of the system and should not receive first consideration.

In an existing enterprise, details for the new system are collected from the various forms in use. For a new business, such details are worked out by the use of simple temporary forms and of collective accounts, such as merchandise, expense, and cash.

Before any consideration of minor details, it is necessary to secure a proper balance sheet. That system is best which will present an accurate balance sheet and an intelligible profit and loss statement with a minimum of labor. (See further Volume I, Chapters VIII and IX on profit and loss and Chapters X and XI on the balance sheet.)

2. Organization Plan

A definite organization plan must be worked out which will correlate the various departments, one with the other. A graphic organization chart is useful in this connection. Such a chart should be submitted to the proper executives for discussion and rearrangement. Often it is found necessary to work over such a chart a number of times before the final one is decided upon.

The plan of organization as adopted may show that the concern has developed so far that its present basic organization, partnership agreement, or charter and by-laws are not adequate for its present business and personnel. If such is the case, the form of organization must be expanded, revised, or amended as the situation may require. Sometimes a complete change in the basic organization is necessary, as when a partnership becomes a corporation. (See Chapter II.)

3. Co-operation of Officials and Employees

In order to avoid opposition to changes suggested in organization or method, as well as to secure valuable information, every responsible official should be consulted before a change is made. The executives of the various departments should be given full understanding of the proposed changes, and the progress made in carrying them out. Only in this way can their co-operation and good-will, both of which are necessary to the success of the undertaking, be secured.

It is important, also, for the success of the survey, that the investigator be able to confer with competent employees who are more thoroughly conversant than he with the transactions which are incident to the conduct of the business. He should seek out some person who is more than a bookkeeper, who has a knowledge of modern accounting, stores, funds, etc., and who occupies a position of responsibility in the organization. Without the support of some such person, any change in the existing state of affairs will probably fail. Without such support the accountant will find it almost impossible to satisfy himself beyond doubt that his final recommendations and suggestions are both correct and applicable to the actual transactions of the business. Judgment and discretion of the highest order should be exercised by the investigator at every stage of his work.

It may aid in winning the co-operation of employees if their own interest in the adoption of the best possible system can be pointed out to them. The usefulness of a scientific accounting system to the employee is not generally realized. Such a system indicates the

results of efficient and faithful service. Suppose that the profitableness of one branch of the business is due actually to the efficiency and devotion of any certain employee or employees; in such case a complete system of accounting would show the reasons for the success and the results of the effort, so that those entitled to the credit might receive their due. Nothing is so convincing as the cold figures that show profits to the business as the result of good work.

4. Chart of Accounts

When the preliminaries concerning the organization plan, co-operation of officials and employees, etc., have been carried out, it is time to construct a chart of accounts based on the layout of the organization as indicated in the organization chart. From the records in use, working balance sheets are set up for two periods; as, for example, for the beginning and end of a week, or of a month. A comparison of these, one with the other, permits a general subdivision of the collective accounts, such as the merchandise, expense, and cash accounts. Such a comparison, also, will gradually disclose the principal features of the business. The information secured in this way, plus that secured from questions asked of those persons closely associated with the business, and from personal examination and scrutiny of the business operations in the light of the information gleaned from the working sheets, will bring out gradually all the peculiar conditions, unknown at first, which must be provided for eventually. When the conditions are all known, the accounts to be set up are readily determined. (See Chapter XXIII and also

Volume I, Chapter VI and Part VII on the classification of ledger accounts.)

From this point on, the reorganization of a system is concerned chiefly with changes in the existing records and with the introduction of new records. These changes, of whatever kind, depend entirely upon the type of business. The lines on which changes take place are treated in subsequent chapters.

5. The Ledgers

After the classification of accounts has been determined, provision should be made for all such accounts in the various ledgers that are to be part of the system. The general ledger accounts should be as limited in number as is possible. The proper controlling accounts for the subsidiary ledgers should be carefully planned. When the number of the various subsidiary ledgers has been decided upon, it is time to consider their rulings in the light of the classification of accounts adopted.

It may be necessary to introduce a private ledger into the system. This is especially true in partnerships where there are partners with a minority interest in the firm. Often these persons do not want the office force to know their exact status, since they fear that they would not be accorded the same respect that is accorded the partners who have a majority interest. (See Chapter XXII on the use of the ledger and also Volume I, Chapter XXIV on controlling accounts.)

6. The Records of Original Entry

The next step is to introduce the records of original entry. Each of the records must have other functions

than that of a mere posting medium. A simple journal would answer the purpose of a posting medium were that all that is required, but, as is brought out later, records of original entry must perform other equally important functions. They are expected to furnish tabulated information concerning the main characteristics of the business.

As posting mediums, their form is determined by the utility of specially named columns. No exact rule can be laid down as to the number of recurring similar transactions necessary to justify columns set apart to receive them, other than that the adding of such columns and the forwarding of their totals from page to page should be less labor than the posting of the separate entries in detail would be. As a means of furnishing tabulated information, they should by their form present the information necessary for answering questions on the general results of the business readily and correctly. The results of general policies require constant supervision; this is secured from the footings of the vertical columns. The results of minor policies are secured by means of schedules and exhibits. (See in this volume and also in Volume I chapters on purchases, sales, cash, and journal records.)

7. Subsidiary and Auxiliary Forms

The vouchers, invoices, and other papers should be as simple in form as their purposes of recording data and of preventing fraud will permit. Simplicity is of material assistance to many employees who have no knowledge of bookkeeping or are too busy with their duties to take time to examine a form carefully. When

further information is desired, care must be exercised to decide whether a new form should be introduced or an additional column be added to an existing form. It is better to introduce a new one than to make an existing one complicated by adding too many columns and instructions.

These miscellaneous forms should be sufficiently numerous to provide a receipt whenever a purchase or an exchange is made by the business, externally or internally. Provision should be made also for the retention of this receipt or a copy of it in properly kept files. These evidences of value, whether received or given out, should pass through the hands of every person connected in any way with the transactions they represent.

8. Time for Installation

It is not good policy to set a time for the beginning of a new system and to endeavor to introduce it all at once. It is more practical to commence by issuing the new forms a few at a time, and thus give them a trial of a few weeks prior to the date set for the actual beginning. This plan has various advantages:

1. It enables the investigator to direct personally the preparation of every form, while avoiding the confusion and personal annoyance which would arise should he endeavor to install the entire system at once.

2. It is the most satisfactory way for the worker inasmuch as he may be shown how to use the forms by the person putting in the system. Written instructions are not readily comprehended, and an agent detailed to give the directions is very likely to make some error, especially if he has never seen the forms in use.

3. It gives time and opportunity to observe the working of the new forms, and thus when operations are actually commenced better results are assured, because the organization will have gradually become accustomed to the changes, and the new records will be adjusted to each other throughout the system.

When the various forms have been tried out, and the detail is being recorded in a satisfactory manner, then the person in charge may appoint a day for commencing the system, preferably a time convenient for making closings, as at the beginning of the week or the first of the month. A complete inventory should be prepared as of the date set for commencing the new system. Such instructions as are necessary to insure its preparation should be carefully made out, so that it will give the totals in the way they should be given in order to make the opening entries under the new plan.

If an accounting system is to be installed in a new organization, it should be worked out completely before operations commence. If that cannot be done, full memoranda should be made of the concern's transactions—capital, purchases, contracts, sales, cash receipts, cash payments, wages, salaries, loans, etc.—so that when the system is installed but little difficulty will be experienced in ascertaining the opening entries and the entries for the interim transactions up to and including the date of installation.

9. Rules

Office routine should be automatic in its working and not based merely on arbitrary rules. Rules may readily be violated. Some definite requirements, of

course, must be laid down to relieve executives from the detail of routine matters. Yet great care should be exercised in any such case. The important part of any rule is the spirit of it. If a rule has been worked out from experience, if it is made necessary by existing conditions, there is reason for its existence. The point to be borne in mind is that a multitude of rules discourages originality; while the entire absence of them tends toward confusion.

10. Supervision

Supervision must not end when the investigation is concluded and the system fully established. Proper accounting demands close and regular supervision by persons in authority. This should be carefully provided for by the person who is putting in the new plan. The system which he installs should be so organized that its smooth working will automatically slow down unless those in supervisory capacity actively do their duty.

A remark made recently by George Mathews, chief statistician of the efficient Wisconsin Railroad Commission, before a telephone association meeting bears out the above statement. The commission, he said, had sent out accounting methods to the various companies but this was not enough. A company would gradually give up one account after another until only a check book was left. In addition to providing telephone companies with proper accounting methods, he showed that there must be supplied a regular supervision by men in authority to help and compel proper accounting.*

**Telephony,* February 23, 1918.

If such a condition exists in utility companies under the stimulus of governmental regulation, how much greater the need for vigorous supervision in the case of trading concerns that have no such incentive to carefulness.

REVIEW QUESTIONS

1. What is the primary object to be kept in mind when planning any accounting system?
2. What importance should be attached to securing the co-operation of officials and employees in carrying out proposed system changes?
3. Outline the general steps you would follow in carrying out a reorganization problem. State them in terms of a case which has come under your observation.
4. Why is it important to examine the present organization plan in carrying out contemplated changes in an existing system?
5. At what time should a new system be introduced in an existing organization? Would your answer be different if the concern were a new one?
6. Should office routine be regulated by rules that are based on experience or by those that are arbitrary? Give reasons.
7. Does supervision end when an investigation is concluded and a system fully established? Give reasons.

CHAPTER VI

FORMS AND RECORDS

1. Forms a Matter of Convenience

The use of a certain form in an accounting system is merely a matter of convenience—nothing else. It is not a matter of principle. Blank sheets of paper could be used as well as paper containing rulings and columns. But since the use of paper with rulings and columns is more convenient than blank paper, blank paper for forms is unacceptable in a modern accounting system. On the other hand, the rulings and columnarization of many forms have been dictated by custom. While custom should not be deviated from without cause, it is less important than utility.

2. The Form in Its Relation to System

Too great care and foresight cannot be exercised in selecting or designing forms to be used in any particular case. The practical objects and purposes of a form must be kept in mind. A form is a means by which results are obtained—not the result itself. An accounting system should measure efficiency. To do this, much thought must be given to the form in which the results should appear at the end of each stated operating period. These results appear in the accounts as kept on the ledgers and subsequently in the statements; the ultimate aim of every system being the production of proper statements which will enable a

manager to put his finger on any variations in expenses and returns, one period being compared with another. A report of results is the key to the situation; all forms must lead up to statements of results.

Fundamentally a form is determined by the question, "What do I want to know?" An answer to this question will determine what sort of forms and system will be adopted. The forms and the system go hand in hand.

A second question may be added at this point also, "How can the facts be best obtained, summarized, and arranged, so as to get the most out of them with the least trouble and expense?" This question cannot be answered until the general outline of the system to be adopted has been decided upon. The whole system should be arranged so that its several parts will fit in the scheme naturally and conveniently.

An elaborate system which oversteps legitimate bounds and involves too much red tape is to be deplored. The system in use should go no further than to show at all times what is being done, what results are being secured, and exactly where the business stands. The proper use of the information to be recorded in the system's forms should permit this to be done.

Any discussion of systems and forms must be more or less theoretical, no matter how experienced may be the person advancing the discussion. A system perfect under the conditions of one office will not work in another. Therefore, it is impossible to take a form or a record from some good working system and transplant it bodily over into another system being revised or added to. The form or record so transplanted must at least be

materially changed, if not completely modified, before it will be of use.

A new form will usually be too complicated; experience will tell where to eliminate, where to simplify, where to add to make it fit into the system. Certain forms will be found to be essential; others merely valuable and desirable. Conditions determine in each case which is which. The records kept should be complete but too great refinement of method should not be used. When accounts are not subdivided minutely, fewer forms will be required than if the accounts carried were minutely divided.

3. Completeness of Routine

An accounting form, to be successful, must be founded upon a satisfactory routine. No matter how extensively the work is subdivided, no matter how advanced the various books may be, the routine by which the information is gathered, classified, recorded, and reported, must be complete or the form will be a failure.

4. Uniformity

Forms used for a given purpose in one department should be uniform with those similarly used in other departments in their method, make-up, and size. Only in this way is it possible to establish quickly a means of identification, avoid confusion, save filing space, and curtail mistakes. For example, all original copies in the purchasing department should be of one color; duplicates should be of another. Original tickets are more easily handled when made in standard form. If postings are made from them much time will be saved. The

tickets for a day, or for a month, can be arranged quickly for posting in the order in which the accounts in the ledger are carried.

5. The Amount of Detail on a Form

Bookkeepers should not be required to seek information. Standard forms should be prepared on which all other departments will report to the accounting department the data which the latter must record.

Too much detail must not be compressed upon a single form, if the form is to be of any value. It is well known that neither the eyes nor the mind of a person reading a form can grasp more than a limited amount of material at one time. If one places many columns of figures on a single form, it is possible that essential items may escape attention. Therefore, it may be advisable to prepare additional forms in order to eliminate the chance of disastrous confusion.

It is well to arrange forms so that they may be used for more than one purpose. A material requisition sheet is customarily made out simply to show the amount and cost of material entering into a given order, but the information recorded there may be just the information required in keeping the stock record. This double purpose of the form is accomplished either by making the form more general or inclusive in design, or by making extra copies of it.

On the other hand, the same data should not be collected over and over again. In actual practice the scope of forms is limited by their respective uses. Forms overlap sometimes in the information they carry, owing to the designer's error in considering all the uses that

might be made of each form, instead of the uses which are to be made.

6. Questions to Be Answered When Ruling a Form

From what has been said above, it follows that three considerations are involved in the use of accounting forms, regardless of their make-up:

1. All data relating to the business transactions of a concern must be recorded.

2. These data must be compiled, arranged, summarized, and distributed, finding their way at last into the ledger.

3. The form must be arranged so that the distribution can be made in accordance with the accounts as carried. These accounts act as controls over the forms on which entries have been made. In these controlling ledger accounts many items found on the subsidiary form, or on a number of similar forms which have been grouped into a unit, may be entered in one single amount.

In designing a form at least four requirements must be borne in mind. The form must be:

1. Complete
2. Accurate
3. Neat
4. Economical in clerical labor (posting)

Also, in addition to these various considerations, certain questions should be answered satisfactorily before a form is drawn. The following are characteristic. An answer to the first five questions will determine the kind, size, and weight of paper to be used. With-

out a consideration of the sixth question it will be impossible to know how to rule the form, and how many columns to place upon it. The spaces to be filled should be arranged in the *logical* order in which the facts should be presented for later use. An answer to the seventh question will determine the kind of type to use.

1. Where will the form be used? Will it be used out-of-doors where exposure to the weather is certain, or will it be used indoors?
2. How will it be used? Is it to be filled in with pen or pencil? Is it to be used separately from others or used in connection with certain other forms?
3. How long will it be used? Will it be used temporarily or must it be kept a long time and be referred to constantly?
4. Through how many hands will the form pass? Is it to be used by many departments?
5. How many copies are required?
6. What information must the form contain?
7. What parts of the information to be contained upon the form are more important than the others?

7. Rulings and Columns

The unit of accounting construction is the column. Figures are arranged in columns, whether in the recording of business transactions or in the presenting of these transactions later in the form of statements. Ordinarily, the figures are arranged vertically from the top of the sheet downward. Figures grouped together vertically in a column, one amount under the

other, allow the total at the bottom of each page to be transferred to the top of the succeeding page as the first amount to be recorded on the new page. Therefore, because of the great number of pages which a book may contain—a thousand or more—each sheet, for example, containing 40 or 50 lines from top to bottom, the number of items that can be recorded is really very large. On the other hand, any book becomes unmanageable when its size from left to right passes beyond 50 columns, no matter what expedient be used. Even the use of an inserted short page does not remedy this condition.

With the column as the unit of construction, any accounting record, form, or statement may be developed. Columns are arranged from left to right, cut by the horizontal writing lines, every fifth line at least, for the purpose of readily locating amounts in the columns, being of a color different from the other horizontal lines.

The most satisfactory arrangement of the material for entry is as follows: Items of a flexible nature are best entered on the horizontal lines and at the left of the sheet, in order from top to bottom. The fixed designations, on the other hand, such as analyses or classifications, should be arranged from left to right across the page.

REVIEW QUESTIONS

1. Is a form a matter of principle? Give reasons.
2. What is the relation of a form to the system in which it is used?
3. What fundamental questions should be asked before attempting to design a form?

4. What relation exists between organization routine and the forms used in the accounting system?
5. In what ways may needed uniformity be secured in the forms used in the various departments of a concern?
6. What detail should any given form contain?
7. Enumerate the points to be borne in mind when ruling a form.

CHAPTER VII

LOOSE-LEAF AND BOUND RECORDS

1. Increase in Use of Loose-Leaf Records

A loose-leaf record is one from which the leaves may be removed and replaced as desired, with ease and without injury or mutilation to the book as a whole. The use of loose-leaf devices has been one of evolution, one book at a time giving way to the change. The possibilities for the loose-leaf system are many because the idea is applicable in one way or another to all forms of accounting. In fact, the idea is developed to such an extent that in some establishments loose-leaf records are being used entirely in place of bound records. In such cases it is assumed that loose-leaf records are more desirable than bound records. This assumption at times is much at fault.

The leaves of a loose-leaf record are held in place by rods, or leather tongues secured to one side of the binder. These rods or tongues pass through perforations in the loose sheets of paper. A lock operated by a key prevents the abstraction of leaves without authority. To take a sheet out requires that the book be unlocked, or that the sheet be torn out. If the loose sheets are locked in the binder, and the key is kept by some responsible person, so that leaves may not be removed without proper authority, the book is practically a bound one.

Loose-leaf binders come in various mechanical

styles. They are bound in cloth, canvas, corduroy, leather, or combinations of these. Half-leather or half-corduroy makes a very serviceable binder at a reasonable price. Since transfer binders are handled less than those in actual use all of the time, their binding may be made of less durable materials. In selecting a binding, the same type should rarely be chosen for every purpose of the business. The point to be borne in mind is that from the various types of possible bindings, those should be chosen which will enable the necessary accounts to be kept at the smallest cost and with the greatest safety from fraud. Any loose-leaf binder, when open, should hold the sheets so that a flat surface is presented.

2. Advantages of Bound Books

Bound books have their advantages for many purposes.

1. In any business which makes use of subsidiary ledgers, the general ledger and also the private ledger, if one is kept, should be bound books. The accounts contained in these records are more permanent in character, they are fewer in number, and the classification usually is not made into more than three or four groups.

2. In a small concern, where there is little division of labor and where one employee performs most of the duties connected with the accounts, alterations and removals cannot be made without leaving traces in the permanent record. This is a big advantage, although if fraudulent substitutions of pages occur in connection with loose-leaf records, a proper audit should disclose the practice. In a larger establishment, a division of

duties among many employees secures the same results. There must here be collusion between at least two employees before records can be altered or facts once written removed from the records without authority

3. Many concerns prefer to have the general journal in bound form. Journal entries are important, and for the most part are independent of other entries. If a false loose-leaf journal page is substituted for an original, and the corresponding ledger page is changed also, to cover a fraud, the alteration would be difficult to discover. Yet experience shows fraud to be no greater with loose-leaf than with bound records.

3. Disadvantages of Bound Books

A visit to the office of any company which has been doing an extensive business for a number of years, using bound books only, will disclose many disadvantages. Take for example one concern which had been in business some twenty years.

1. The shelves on one side of a room were full of records, every one a bound book. Hundreds of dollars were represented by the bindings alone. When one book was discarded, its binding was also discarded. When a new record book was purchased, a new binding had to be purchased at the same time. If some of the old material could have been transferred to a cheap binder, the old cover could have been continued in use by purchasing only some loose sheets.

2. An examination of most of the discarded records, that is, records discarded as too full to use any longer, showed a large amount of unused space.

3. An examination of the books in current use

showed that there was a continual handling of filled sheets and closed accounts. If these could have been removed and placed in cheap transfer binders, the size of the current records would have been diminished and no time would have been wasted thumbing filled sheets and closed accounts.

4. The current ledgers were heavy and cumbersome to move from one place to another in the office.

5. The current records could be used by only one person at a time. While a record was being used by one person, frequently someone else was idling away valuable time waiting his turn to use it.

6. An examination of the current ledgers showed that many accounts were located in several parts of the ledger. It is impossible when a ledger is opened to decide how many pages an account will require. Transferring an account here and there as a page became full and no more room at that point remained, necessitated constant reference to the index.

7. The index required rewriting every time a new ledger was opened, and every time an account was transferred it had to be changed.

8. Every time a trial balance was drawn and statements made out much time was lost in thumbing over every page whether in use, closed out, or blank.

4. Advantages of Loose-Leaf Records

The good points of loose-leaf books may be listed as follows:

1. Ease of classification. The arrangement of the accounts is methodical and regular, as desired, not only when the record is opened, but thereafter.

2. Reduction of the size of records in actual use. This is accomplished by the elimination of both full and empty sheets. Full sheets are transferred to transfer binders; empty sheets are stored away and used as needed.

3. Many persons may work on one record at the same time. Frequently this accomplishes such a saving in time that work, which, if a bound book were used, would take a week, can be done in a day.

4. One good current binder will last for years even if in use every day. When the binder is full, the filled sheets may be taken out and new ones purchased and inserted.

5. There is no waste because of unused space.

6. If the record requires an index, this need never be rewritten.

7. More than one copy of a record may be made at one writing.

8. Posting is facilitated. This is especially true of card ledgers.

9. There is no loss of time in transferring accounts from one record to another.

Loose-leaf records are more useful for subsidiary ledgers than for the general ledger. In subsidiary ledgers, especially in the customers and creditors ledgers, the accounts are so numerous that classification by alphabetical, numerical, geographical, or other schemes is necessary. Only active accounts are wanted in those ledgers; the elimination of dead ones is highly desirable.

In the case of voluminous original records, loose-leaf books are useful; take for example a cash book in

which are recorded detailed cash receipts in a retail business. A cash book large enough to contain many days' entries is too large for easy handling; a number of cash books of small size are too expensive and take up too much filing room. If a loose-leaf cash book is used, the filled sheets can be transferred to filing binders. Also posting will be facilitated, since the sheets of yesterday can be posted today, while today's sheets are in the current binder. When branches or agencies are required to forward duplicate records to the home office, loose-leaf books are an advantage, since the original and the duplicate can be made at one writing. Loose-leaf records are excellent for sales books or other records which can be typewritten from original memoranda.

5. Disadvantages of Loose-Leaf Records

The chief disadvantage of loose-leaf records is risk of loss or theft. The risk of loss with books of original entry is important. If the loss occurs before postings have been made, it may be impossible to reconstruct the records. If the postings have been made, the records may be reconstructed, though the work required will be found to be extremely troublesome.

In books of original entry, ease of classification is not required and is therefore not an advantage. Since original records are chronological in character, the need for classification is negligible as compared with the need of classification in ledgers. As a general rule, loose-leaf records are not used for books of original entry, though at times certain advantages derived from their use may warrant their introduction.

One objection not mentioned thus far concerns rec-

ords as evidence in case of dispute, although this objection is not great. In a loose-leaf record it may be possible to substitute an altered page for an old, correct one, but it is almost as easy to substitute one set of bound records for another one. The possibility of detection in either case is about the same, and a proper audit should disclose the fraud.

6. Precautions in Installing Loose-Leaf Records

Certain precautions should be observed in applying the loose-leaf system to a business. These precautions should be borne in mind so that accurate, reliable, and ready records may be secured.

1. Every loose-leaf sheet should be marked and numbered in such a way that a record may easily be kept of its issue, use, and return.

2. Whenever a sheet is spoiled it should be accounted for, and not destroyed. If it has been torn from a certain book, it should be marked, canceled, and attached again in the record.

3. Unused sheets should be protected so that a check is secured on their issue and return. They should be kept in the personal charge of some responsible employee, perhaps the manager of the office.

4. If the danger of loss or destruction of records overbalances the saving from the increased amount of work turned out, loose-leaf devices should not be used.

7. Cards

In some form or other, cards have been in use many years, and at the present time are considered indispensable in almost every line of business.

Cards may be considered as sheets of sufficient stiffness and thickness to stand on edge in trays, boxes, or drawers of suitable size. They are left together in desired groupings in the tray or box, and sometimes rods or other devices impose some restraint upon their removal. Indexes are provided by cards usually of a different color from those used for records and with tabs extending above the record cards. The index printed or written on these projecting tabs readily catches the eye. The kind of index used depends entirely upon the class of records that is to be kept. Both simple and elaborate classifications are possible.

When an organization adopts the card system of recording transactions, some of the advantages desired are:

1. Unlimited expansion and classification.
2. Elimination of dead matter.
3. Accessibility.
4. Various possibilities in indexing without disturbance of the records.
5. Saving of time in posting.

In fact, the card system adapts itself so readily to varying conditions that many records are now made on cards which were never kept in books, because of the labor which would have been involved as compared with the value of the record when the same was completed. Card ledgers save the bookkeeper's time in posting. The cards may be removed from the boxes or trays by a clerk and arranged by him in the exact order required by the bookkeeper, and returned by him after the posting is completed.

REVIEW QUESTIONS

1. State the advantages and disadvantages claimed to result from the use of a loose-leaf system of ledger accounts.
2. Compare the card with the loose-leaf system of records.

CHAPTER VIII

PURCHASE DEPARTMENT ORGANIZATION

1. Importance of Subject

In the conduct of either a producing or a trading business the expenditure of money is a matter of vital import to the success of the enterprise. A large proportion of such expenditure is concerned with purchases—purchases ranging from raw material of the simplest kind for production work or resale, to fuel, supplies, and capital expenditures for plant and equipment. In fact, more than one-half the gross income of most manufacturing concerns is spent annually for materials alone, raw or otherwise. The success of any business, therefore, is vitally dependent upon the amount of thought and care given to the purchasing department, the gate of entry through which pass the various materials needed for productive and sales purposes of the business.

Purchase problems relate both to organization and to accounting, but those which are chiefly concerned with matters of organization are not considered at length in this volume.

The present chapter, introductory in nature, gives an outline view of the general subject before taking up the discussion of organization essentials, and the details necessary to the effectual handling of the purchasing department.

2. Purchasing and Cost of Goods Sold

The first principle in the conduct of all purchases is to buy the best materials at the lowest price. In any establishment, materials and goods are purchased to be sold in the same or altered form. In a manufacturing concern, for example, raw material is acquired as a first step in the production process, and the cost of this raw material bears an important relation to the cost of the finished product. The more valuable the materials used the more vital becomes this relation. Poor buying may prevent underselling a competitor; in that event a marked decrease in sales is certain, and a loss is likely. In every case, the price and quality of material must be examined closely. Failure in this particular puts a handicap on all subsequent effort.

Careful buying must be observed also in connection with all things that go to make up the indirect expenses. These include at times large quantities of materials and supplies for maintenance and repair purposes, and for cleaning and packing the product for sale. All of these must be considered as part of the cost of goods sold.

The selling price of most commodities is fixed by competition and public demand. Profit, therefore, is not determined by selling price so much as it is by working down the cost of production. The importance of right methods of purchasing in controlling costs is not always realized. When it is desired to increase the profit that lies between the cost of an article and the selling price, the point of first attack is often to increase sales; an attempt is made to secure a greater output by increasing the demand through better advertising and salesmanship. When the firm has done all it can by this

means, the next point of attack may be a reduction in labor costs. Material and indirect expense costs, however, might very well be considered at the beginning. The saving effected by a reduction here may exceed that secured by other methods. But the costs of materials cannot be reduced to the lowest possible point without an effective system of purchasing.

3. Results of Unscientific Purchasing

The results of an indifferent and careless purchasing policy are likely to be somewhat as follows:

1. High prices and poor qualities secured.
2. Purchases of more or less than the needs of the business demand.
   (a) If more, capital is tied up.
   (b) If less, trade demands cannot be met.
3. Deliveries at unspecified times with possibly a consequent failure to meet the needs of the business.
4. Deliveries unsupervised. This means receipt of defective goods or over- and under-deliveries.
5. Invoices improperly handled.
   (a) Unnecessary delays.
   (b) Improper checking.
   (c) Loss of cash discounts.
   (d) Duplicate payments.

These results will almost invariably lead to a loss of customers and to an excessive cost of goods sold; they may even cause a final loss on the whole operation of the business. Efficiency and carefulness will eliminate these defects, forestall losses, and promote gains.

4. Small vs. Large Business

Usually there is no reason why the purchasing for a small enterprise should not be handled by one person. This work can be more efficiently directed by one person who is a specialist than by several different people, none of them specially skilled. The purchasing problem frequently attains considerable proportions without the concern itself being very large. The great variety of materials to be purchased, the required knowledge of market fluctuations, the ever increasing number of grades of materials and their possible substitutes, the labor and mechanical problems connected with the goods to be bought—all indicate that this work should be handled, wherever possible, by a single specialist.

The department itself may be large or small, according to actual needs. In a small business the purchasing is usually under the control of a general executive, one who has other duties to perform in addition to those pertaining to purchasing. Yet he is in complete charge of the activity and may specialize in its work. This may be true of the larger enterprise also, as it is, for example, in the case of a concern which manufactures one single product, such as flour. In some large concerns, again, certain classes of purchases are in the care of a general executive because they involve delicate problems of financing. Such a person would keep in close touch with the individual who handles the general purchases. In a large company there may be a staff and a number of assistants. In a merchandise concern there may be a separate buyer for each department, all acting under certain limitations and sometimes under central control. In large companies, too, operating in various

sections of the country the general purchasing agent may be located at a distance from the plants for which he is buying, with a local purchasing agent at each plant. Control is centralized in order that the financing end of the business may run smoothly. The purchasing activity is strictly a departmental one in any business and the same fundamental principles govern its work regardless of size.

5. Activities of the Purchase Department

Subdivisions of the purchasing department should be organized in order to accomplish the greatest amount of work in the least amount of time. All employees should be so placed that their work dovetails and forms a complete sequence.

The activities of the purchasing department may be summarized as follows:

1. Filing of informal data. This work may be in charge of one individual. The information files should be systematically kept up-to-date. All the necessary facilities for securing and filing data should be in use. The sole object in view is to furnish such data promptly and correctly.

2. Determining prices. Prices are secured from agreements in force; if no agreements exist, quotations must be secured. These quotations or prices are to be compared, and the results given to the purchasing agent for his approval.

3. Handling of purchase requisitions. These must be handled carefully to see that they are complete and properly made out. Constant reference to the information file is necessary to do this work intelligently.

4. Handling of purchase orders. These must be written up properly from the correct purchase requisitions sent in, and the correct prices, etc., should be inserted and checked up before the purchasing agent signs and issues them. Each person interested should receive a copy of each order. When an order has been placed, it must be followed up systematically.

5. Receiving, storing, and issuing material. The stores-keeper is custodian of materials on hand. He guards them while in his care and supervises their issue. A direct connection exists between the stores department and the purchasing department. Occasionally the two are independent of each other, but usually the work of the stores department is one of the purchasing department functions. Regardless of its size, a stores department should receive goods, check receipts against orders, count, weigh, and measure goods received, store properly the goods received or dispose of them as directed, operate a receiving record, keep a perpetual inventory, and deliver goods on proper requisition.

6. Inspecting material. This is a very important function, and may be in the sole charge of one individual. The inspector usually receives a copy of the purchase order, and reports to the purchasing agent or to the stores-keeper.

7. Handling of invoices. Invoices should be recorded, checked against purchase orders and prices, and classified. After the freight charges have been verified, which is a duty usually of the traffic and shipping department, the invoices are ready for the accounting department. Some of this work may be done in the accounting department.

8. Directing traffic. This may be under the purchasing department, or under the sales department.

REVIEW QUESTIONS

1. What are the results of an indifferent and careless purchasing policy?
2. Compare the purchasing problem of a small business with that of a large one.
3. Enumerate the general classes of activities of a purchasing department.

CHAPTER IX

PURCHASE DEPARTMENT ROUTINE

1. Preparation for Purchasing

The proper handling of purchases really begins with the organization of a catalogue file placed near the buyer's desk. Each catalogue as it comes in should be numbered legibly and filed—most conveniently on a shelf—so as to be readily available for use. Pamphlets and leaflets which are not of sufficient body or size to stand on an ordinary shelf with the regular catalogues should be filed in a letter cabinet of some kind.

Price information should be recorded on a special set of cards, one card being used for each article. If different sizes or grades are needed, a separate card should be carried for each. Each kind of article used is given a stock number, which will appear on all records referring to the article. The cards are filed alphabetically and are known as the quotation file. They are kept up to date by reference to the catalogues and by correspondence. The information to be recorded is the latest quotation from each of the houses supplying the article in question. In the course of time, these cards are useful to the purchasing agent not only for placing orders but for showing general price tendencies.

An index of dealers, also arranged alphabetically, is kept near the quotation file for convenience. The cards of this index of dealers should be of a different color from those of the quotation file.

An order record of previous purchases is of much use in placing subsequent orders, and in following price fluctuations on a certain article. Such a record may be kept on the backs of the cards in the quotation file.

It will be seen that proper preparation for purchasing requires:

1. A catalogue file
2. A quotation file
3. A source file
4. A record of past purchases

The information obtained from these four data files or records is necessary before the machinery of buying can successfully be put into operation. When a requisition comes through for a purchase it is possible with this information at hand to place an order promptly and advantageously.

2. Purchase System Requirements

A purchase system must be broad in its scope. Otherwise, it will not permit the making of all types of purchases under its routine procedure. To meet this requirement satisfactorily, three things will be found necessary:

1. Full information as to the articles or materials to be purchased, as discussed in the previous section.
2. Uniformity in the method of putting the purchasing machinery into operation, and the keeping of proper records of all that is done.
3. Regular checking up of deliveries to guard against errors.

3. The Elements of a Purchase

Certain routine steps are involved in the purchase of any article or service. They may be set out about as follows:

1. Definite specifications, kept on hand or made up when necessary, as to what is desired.
2. Issue of a properly signed duplicate or triplicate purchase requisition by authorized persons—stores-keeper, department heads, or foremen—for a definite quantity of that which is desired.
3. Sending of one or two copies of requisitions through to the purchasing department by way of the stores-keeper.
4. Checking and approval of purchase requisition by stores-keeper and entry in "Materials Ordered Register."
5. Checking of requisition by purchasing department and entering thereon pertinent facts relating to similar purchases.
6. Approval by purchasing agent himself of purchase requisitions calling for large items, and approval by his assistant of those calling for smaller items.
7. Securing bids if prices are not on hand.
8. Accepting bid or placing order, which involves the issuing of a purchase order on two, three, four, or more copies.
9. Entry in "Purchase Order Register" and in "Record of Past Purchases and Prices."
10. Following up purchase to insure prompt shipment.

11. Taking care of incoming shipments.
12. Inspection, examination, or test of materials received.
13. Receipt of purchase invoice by purchasing department and entry in invoice record—checking and passing same.
14. Checking, vouchering, and entry of invoice in proper records of bookkeeper or accounting department and payment of same.

In smaller concerns, and in larger concerns under certain conditions, some of these steps are often omitted, although theoretically and impliedly, from the standpoint of functions, they are all present in the purchase procedure. One man, for example, in a certain establishment may be purchasing agent, stores clerk, receiving clerk, and bookkeeper, thus exercising more than one function. In a larger concern a separate individual may exercise each function. In the smaller concern it may be possible to omit some of the procedure and some of the forms suggested, or at least to use fewer copies.

In addition to the forms and records mentioned, there are many devices employed to secure a maximum amount of efficiency with a minimum of effort, in the checking, tracing, and control of purchases.

4. Purchase Specifications

The object of any specification is to secure at the lowest price the grade of product that can be used most economically—without loss of efficiency. That is to say, the product desired is the lowest grade which can be used profitably—not the highest grade at the lowest price. The uses to which a product is put may often be

met by a lower quality than is being used. The use of a higher quality than necessary is an economic waste.

Intelligent buying is possible only when the purchasing agent is guided and directed by full and intelligent purchase specifications. The specifications must be worked out with care, and once worked out should be preserved for subsequent use when the same or similar articles or material are again required. Purchases may be frequent for some articles and infrequent for others. The success or failure of an enterprise will usually depend more upon the purchase of goods frequently needed than upon the handling of those not needed so continuously. In many concerns there is a tendency to use specifications in connection with infrequent items; it is important to develop the habit of using specifications for everything that is purchased.

Standard specifications assist in reducing purchase costs. At times this has been done to such an extent that a contemplated failure has been turned into a marked success. It is a common occurrence for purchase requisitions to arrive in the purchasing department with ambiguous descriptions of the articles required, necessitating a large amount of work in shaping them up for getting prices and ordering. The demand for additional information on the part of the prospective sellers involves delay and requires much extra work by the purchasing department. Standard definitions can be enforced in the purchasing and stores departments by merely using them in connection with the forms and records in daily use. Outside of these departments the same definitions should be used, even though standardization there may be less important.

Remarkable results are obtained many times by the adoption of specifications for purchases, based upon a careful study of the purpose for which the items were required. Reductions of price may be secured, usually with actual improvement in the quality of the purchases. The adoption of specifications tends toward standardization of purchases. As fewer varieties are purchased, larger quantities may usually be purchased at a time, with resulting lower quotations.

Standardization means also less work in both the purchasing and accounting departments. The number of requisitions coming in will be fewer, the number of bids to be secured will be decreased, fewer orders will be placed than previously, the mechanical routine procedure of checking and entering transactions will be hastened. In short, a strict adherence to standard schedules of specifications, when possible, secures improvements, benefiting both the departments individually concerned and the whole organization.

In some enterprises the nature of the product handled may make it impossible to follow this plan throughout, because the customer is constantly calling for new goods. However, the idea should be borne in mind, and whenever possible should be applied, even though only to a limited extent. It may be possible, for example, to use fifteen varieties of specifications instead of twenty-five. The fifteen may still be too many, but a saving in costs may be secured, making the change highly desirable.

The subject of specification-writing is more or less technical, and its consideration usually does not fall to the lot of the person reorganizing a system. However,

such an individual should recognize the advantage of specifications, and should be able to provide for the proper verification of deliveries before payment is made.

In the proper scheme of organization there should be the closest co-operation between the purchasing agent and the stores-keeper. The stores-keeper should assume responsibility for all goods ordered. If requisitions for the purchase of material are passed through his hands, he is in a position, because of his close touch with the actual needs of the organization, to assist materially in checking the specifications. He is usually the first person to receive the requisition after it has been made out, if not the one who makes it out. He is in a position not only to check the specifications but also to see whether or not the material called for is on hand.

5. The Purchase Requisition

The purchase requisition is the basis for all purchases, because upon it are built all the activities connected with every purchase made. A requisition should be issued for every purchase, whatever may be the nature of the business.

The purchase requisition may be defined as "a request to the purchasing agent to order certain materials." In a well-organized establishment, as has been indicated previously, the purchase requisition usually reaches the purchasing agent from the stores-keeper, because ordinarily he is the person who assumes responsibility for the necessity of the purchase. As already stated, the stores-keeper examines his stores, and presumably his stores ledger, in connection with a requisition, to see whether or not it can be filled from stock.

In this connection it is assumed that a requisition for purchases may not be a requisition to deliver goods from stock. If a delivery requisition is made out, it must of necessity go to the stores-keeper for filling. If it cannot be filled, the stores-keeper may make out the purchase requisition to pass to the purchasing agent. Even if a delivery requisition is not made out, the routine procedure may be the same. The request for purchase originating in a department may be sent to the stores-keeper, perhaps accompanied by specifications, and the stores-keeper may examine it and pass it on to the purchasing agent.

Requisitions of different colors should be used for fundamentally different cases, as follows:

1. When the stores on hand of a standard kind fall to the minimum amount that should at all times be carried, the stores-keeper should issue a requisition of a distinctive color.
2. When special material is required, for example, for the filling of a customer's order, a purchase requisition of a different color should be issued at once.
3. When rush material is required for any reason, such a purchase requisition should have the right of way. For this kind of requisition a third color should be used.

6. Accuracy of Content of Requisition

Every purchase requisition must be carefully checked and examined, because upon this procedure depend the accuracy and speed with which the subsequent work will be carried through. Careful examina-

tion and checking are necessary to eliminate ambiguous wording of specifications and requisitions. If not removed, they will involve the concern, and especially the purchasing department, in serious difficulty, to say nothing of the resulting delay and extra work.

7. Form and Number of Copies of Purchase Requisition Required

Any form of purchase requisition which might be presented as an illustration would answer very well for certain kinds of business concerns, but would not be so suitable for use in other types of enterprise. Therefore,

PURCHASE REQUISITION

Date_____ Req. No._____

PURCHASING AGENT:

Please secure the following which is

Required for_____ and Charge to_____ account.

Delivery Wanted_____ Deliver to_____

IN STOCK_____ MAXIMUM_____ MINIMUM_____

NUMBER REQUIRED	ARTICLE	SIZE OR WEIGHT	OTHER INFORMATION
.....	.....	.....	.....
.....	.....	.....	.....
.....	.....	.....	.....
.....	.....	.....	.....

Signed

Stores-Keeper | Purchasing Agent

(This space reserved for use of purchasing department)

Checked by_____ Specification No._____

Price_____ Terms_____ Purchase Order No._____

Ordered From_____

Form 7. Purchase Requisition

no attempt is here made to present a composite form suitable for every case. Certain modifications can easily be made in the form presented (Form 7), as the case under consideration may require. The same is true—it might be said—of any of the forms presented in this book. When necessary, they should be modified to meet existing conditions.

The purchase requisition may be made in duplicate or triplicate, two copies usually being sufficient. When two copies are used, the original is sent to the purchasing department, and the duplicate is kept at the point of issue. Later, when a purchase order has been issued by the purchasing agent, a copy of this order would be sent to the point of issue for filing purposes, and as a notice that the order had been placed. Less work is involved here than when three copies are used. When three copies are used, two are sent to the purchasing department and the third retained at the point of issue. One of the first two copies is indorsed with particulars concerning the placing of the purchase order, and is then returned to the issuing point by the purchasing department.

The facts to be set out in a purchase requisition may be classified as essential and optional. The essential facts are usually the following:

1. Quantity and description of material required
2. Date of delivery
3. Number of requisition
   (a) May be numbered when printed. In this case each department sending in a requisition adds a letter to the number as a distinguishing mark.

(b) May be numbered when received by purchasing department. In this case the issuing department is given the number when it is notified that a purchase order has been placed.

Certain requisitions, as for example, requisitions for stores, contain also certain optional information, as:

1. Purpose
2. Maximum quantity permitted
3. Minimum quantity permitted

Any of the department heads or foremen may fill out a purchase requisition. A list of persons authorized to make requisitions should be on file in the purchasing department. Absolutely nothing should be ordered by the purchasing agent until this requisition has been checked by the stores-keeper and approved by the proper person. The stores-keeper must know that the necessary material is not on hand, and he must assume responsibility for all goods that are purchased. Therefore, no matter by whom the requisition is made, it must first be passed to the stores-keeper, to be checked by reference to the stock record. He finds out whether he has or has not any or all of the goods required on the order, and in this way he determines to a limited extent the propriety of the proposed purchase. When he approves the order it is entered in a "Materials Ordered Register," if such a record is kept, and then the requisition as approved by the stores-keeper is given to the purchasing agent, who must secure the goods. This method prevents overbuying and gives the stores clerk absolute control of the amount of goods kept on hand.

The purchase requisition must, of course, be signed by some authorized person. Sometimes, especially in large concerns, two or more signatures are required for the validation of the purchase requisition. When a requisition comes through, someone in the purchasing department should note upon it where the material was last purchased, the date of purchase, price paid, and time required for delivery, and also check up the specifications to see that they are standard. When this has been done prices can be requested, or the order placed.

8. Placing the Order

When the preliminaries are completed, the question of placing the order arises. From whom shall the goods be ordered? Who shall be asked to submit quotations? From an examination of available firms, it will be found that certain of them are in position to supply just what is wanted, and that certain others are not. Information should be at hand also on every other detail which might affect in any way the proper carrying out of the transaction, such as, for instance, transportation facilities of the firms under consideration; location of point of shipment; ability to deliver, based on equipment and finances, etc. A careful loose-leaf or card system is invaluable here. The proper use of such a system will enable a purchaser to line up before him those firms best able to serve his interests and eliminate from consideration all others. The sources of information from which such data may be secured are many and varied, depending entirely upon the purchasing agent's ingenuity.

If no price agreement exists with the supply house or houses which are in a position to fill the order to advantage, or if the price agreement has expired, new quotations must be secured. A standardized form is sent out to each of a number of firms, the number depending upon how many bids are necessary to secure the lowest possible price, the best quality, and satisfactory delivery. A copy of this quotation inquiry and a copy of the names of all the firms to which it was sent are attached to the purchase requisition and filed with it until the requisition has been finally taken care of.

The quotations as received are examined, analyzed, and compared; the firms from which they come are examined and compared in the light of freight rates, terms, previous service, speed, and other matters which the purchasing agent thinks have an important bearing upon deciding where the order shall be placed. After the decision is made, and the unsuccessful bidders—if bids were asked—have been notified courteously of their failure to secure the order, the issuing of the purchase order is next considered.

9. The Purchase Order

When the purchasing agent has determined where he can buy most advantageously, he issues a purchase order (Form 8), a printed form upon which the details of the specific order are entered. For every order placed one of these forms should be made out. It is sent to the concern from which the goods are bought, and is the evidence of authority for the shipment of the goods. The order should be verified very carefully after it is made out, to see that all the necessary points

are covered in detail. Should it be necessary to place an order verbally, by telephone, or by telegraph, a proper purchase order must follow to verify the oral order and fix responsibility for its issue.

To_____ No._____
Address_____ _____ 19____
Terms_____ Ship to_____
Address_____
Ship by_____

CARSON TRADING COMPANY
New York

PURCHASE ORDER

Place this order number on all invoices and packages.

Ship on or Before	Description	Quantity	Rate	Amount	Charge to
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....

Please furnish the above material as stated. Acknowledge receipt of this order. Send duplicate invoices for each shipment.

CARSON TRADING COMPANY,
New York

By_____

Form 8. Purchase Order

Every business determines the style, wording, and form of its own purchase orders. One essential is that the orders shall be numbered serially and that each one shall bear the request that this number be placed on all bills and invoices relating to it which may be sent by the selling house. If this is done, it is a simple matter to ascertain quickly from the duplicate any facts which are necessary to be known concerning the order. In the case of the receipt of an invoice which does not carry

the order number, it is desirable to have a clerk place the number upon it when checking it against the duplicate order. The mark should be distinct. A blue pencil answers the purpose very well.

The paper should be of good quality, the original white, and the copies of other colors. The original and duplicates should be numbered alike. The original need not be punched. The duplicates may or may not be punched, depending upon the filing system in use.

Orders are issued in sets of two, three, four, or more copies, according to the size of the organization and the accounting requirements. There should be at least two copies, one for the purchaser to retain and one to be sent to the dealer from whom the goods are bought. Although every copy in the set contains the same major information regarding the details of the order, usually the printed matter on the different copies varies somewhat in minor points. Since each copy is used for a distinct purpose the printed matter upon one will not apply to the purpose of the other. By use of carbon paper, all copies are prepared at one operation.

The writing in the body of the order should be definite, clear, and concise. Each accompanying paper, specifications, pictures, sketches, etc., should be given a number, and this number should be made use of in the body of the purchase order whenever that paper is referred to. Before the order is sent out, it should be carefully checked. Any typographical errors may cause the firm a serious loss.

The exact procedure to be followed in handling a purchase order depends largely upon the size of the concern and its organization into departments. In gen-

eral the number of duplicates and the complexity of the system increase with the size of the business. Several methods are outlined below.

If the purchase order is made out in duplicate, the original is mailed to the supply house after both original and duplicate have been certified by the proprietor or manager. The purchase order requisition can now be disposed of by filing it away in a post binder file where it will be available for quick and ready reference. The purchase order number is placed on the purchase requisition, and the number of the requisition is placed on the purchase order. After the proper entries have been made in the purchase order register (see § 10) and the record of past purchases has been made on the duplicate, the duplicate is placed on file in chronological order in a spring back holder called the "Unfilled Requisition File," to be available when the invoice is received and to indicate when it should be received. Later, when complete delivery has taken place, the duplicate purchase order is transferred to the permanent file.

If the purchase order is issued in triplicate, the various copies are utilized as follows:

1. Sent to concern from whom goods are to be bought. (Authority to ship.)
2. Retained in office and filed temporarily in the unfilled orders file. (Office record of unfilled authorized purchases.)
3. Sent to stores department or receiving department. (Notice of goods ordered and to be received. To be used as receiving clerk's list.)

If the purchase order is made out in quadruplicate, the copies are utilized as follows:

1. Sent to the firm from which the goods are ordered. (Authority to ship.)
2. Filed permanently in numerical order. (The office record of all purchases authorized.)
3. Placed temporarily in the unfilled orders file. (Record of orders unfilled.)
4. Sent to receiving department. (Notice of goods to be received. To be used as receiving clerk's list.)

The copy sent to the receiving clerk ought not to contain a record of the quantity of goods purchased. If the receiving clerk knows the quantity which should be received, he will many times be tempted to shirk his task and report the proper amount as received without making careful examination. If he must count each shipment, and report exactly what is received, any shortages and irregularities are sure to come to light.

When the goods come in, the receiving clerk checks the invoice against the goods received, and then sends it to the office for proper distribution and entry in the stock and general ledgers after a proper comparison with the office copy. If three or four copies of the purchase order are used, the receiving clerk notes on the last copy the goods received, quantities, conditions, etc., and passes this sheet, together with the goods, to the stores-keeper, who notes upon it the receipt of the goods. This sheet is then forwarded to the purchasing department and compared with the corresponding order in the unfilled orders file. If the order has been accurately

filled, the copy of the purchase order is taken from the unfilled orders file and filed according to seller or otherwise. When the creditor's invoice is received, it is checked by the purchasing department as to prices, terms, etc., and passed to the accounting department, together with the receiving clerk's list. The clerical accuracy of the calculations is checked, the accounts to be charged and credited are noted, and then the invoice is passed to the executive for approval and payment.

10. Purchase Order Register

The purchase order register gives information concerning the different purchases. All purchase orders are entered here as soon as the original order is sent out. The register is usually arranged on a form about 9 x 12 inches of good quality ledger stock paper. The information displayed by the register is as follows:

1. Date and number of order
2. To whom issued
3. Amount—if possible to ascertain
4. Department for which goods are secured
5. For what use the goods are to be issued
6. Date goods are to be received
7. Date goods are received
8. Remarks

For a small-sized concern, two or three sheets a month ought to be sufficient. For regular work, the sheets may be kept in a spring back binder. The binding margin need not be punched for a post binder. At the end of the year the year's record of purchases may be fastened together with a staple and filed away.

When notice is sent in by the receiving department that goods have arrived, the received column is filled out. This purchase order register shows:

All orders placed
All orders received
All orders placed but not yet received

Occasionally the requisitions in the unfilled file should be checked against the received column of this register to ascertain whether the register is kept up to date.

11. Order Follow-Up

Goods must be received on time, otherwise the whole value of the purchasing department may be neutralized. There are many devices for taking care of this matter, but whatever one is adopted must be used vigorously and conscientiously in order to secure the full benefit of it.

The tickler system is perhaps the most familiar and workable method for following up orders. The date of expected receipt is recorded on a card, which is placed in a tickler file under that date, or under the date when notice may be sent the shipper. This date is entered also on the copy of the order retained. Each day the necessary cards come up automatically. To facilitate matters every reply received in answer to each inquiry is noted on the card. When an order has been filled the follow-up card is taken out of the file and destroyed.

12. Shipments on Order

It is important to keep track of all shipments of goods ordered, made against outstanding purchase

orders. The manner in which this may be done varies greatly, being perhaps entirely dependent upon what the purchase orders call for. If shipments on an order are few in number, they may be recorded upon the face of the order as they come in; if they are many, they may be recorded upon the back of the order, since the back has more available space than the front.

As soon as the purchasing department receives word that an order is on the way, the person or persons in charge of the receiving, the stores-keeping, and traffic should be notified so that preparations may be made for taking care of each shipment when it arrives.

As soon as a purchase order is filled, it should be checked against the invoices, which by this time have come in either separately or in batches, and with or without shipping notices and bills of lading. When this has been done, the purchase order should be "pulled" from the "unfilled" file, and placed in the "filled" file, where it will remain attached to various papers relating to the order for possible future reference.

REVIEW QUESTIONS

1. A company issues an order for material. From that point on, recite the accounting operations which a well-organized concern would employ to safeguard its interests until the bill is paid.
2. What information should be placed upon a purchase requisition?
3. What information should be placed upon a purchase order?

CHAPTER X

PURCHASE DEPARTMENT ROUTINE
(CONTINUED)

1. Necessity for Accurate Work

The handling, checking, and recording of purchase invoices carefully and promptly is absolutely essential. Even though everything up to this point may have been done in the best possible manner, if the invoices are not handled, checked, and recorded properly much of the saving that had been secured thus far may be lost. Suppose, for example, that the price of a certain article was $1.10 a unit on the purchase order, and that the invoice price approved for payment amounted to $1.19 a unit. The result is obvious; a large order handled in this careless way might result in the loss of thousands of dollars.

Again, if an invoice is not presented for payment at the right time, a cash discount may be lost, and if this practice is followed in regard to many invoices carrying discounts, the result is similar to that of careless checking—a big loss may result in the course of the year which will more than offset any saving secured through efficiency in placing the order.

As a third possibility, an invoice may be paid twice. There is little use in clever and systematic saving by the proper placing of a purchase order, if when the bill comes in it is paid twice. Care must be taken not to let an invoice receive the purchasing department's approval for payment unless it is one that should be paid. Should

an invoice pass through the purchasing department improperly, there is a chance of its not being detected in the accounting department.

2. Invoice Register

An invoice register (Form 9) is a useful record. Many concerns which have never made use of it could install it to advantage. In an establishment in which it is necessary to send the invoices out of the purchasing department for approval, it is an easy matter to lose one or more of them, and thus not only delay payment an unreasonable length of time, but in addition lose, perhaps, a remunerative cash discount. Under such conditions, an invoice register would be very

INVOICE REGISTER

Sheet No._____

Date	Name of Vendor	Amount	Recd.	Out			Bkpr.	
				Dept.	Sent	Rtd.		
.....	.....	.....	.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....	.....	.....	.....

Form 9. Invoice Register (Columns are repeated across width of form as many times as desired.)

useful. Its purpose is merely to keep track of the invoice from the moment it comes in to the moment it is sent to the accounting department or bookkeeper for entry upon the books of account and payment.

When an invoice comes in it is sent to the purchas-

ing department, and is recorded at once in the invoice register, a loose-leaf columnar form somewhat resembling a ledger in appearance.

3. Cash Discount

After an invoice has been recorded as suggested in the last section, it should be examined to find out when it must be paid to secure the cash discount. When this date is ascertained it should be stamped upon the invoice in such a way that it will come to the attention of everyone through whose hands it passes. Sometimes a colored sticker is pasted on the invoice in a conspicuous place, and on this is marked the expiration date of the discount period.

4. Invoice Checking and Approval

Before an invoice is ready for payment, it must be checked and approved. The method of noting approval on the invoice should be uniform; the usual ways are the following:

1. A rubber stamp, somewhat like the following, may be used:

Certification

For By

Quantity .....
Quality .....
Price .....
Freight .....
Extensions .....
Extensions .....

(a) On the face of the invoice. If space exists, this method is excellent because the markings cannot be taken off fraudulently and applied to some other invoice.

(b) On the back of the invoice. In a small concern, this method is usable because the number of invoices handled is not so large that much time will be lost in turning them over for marking, and later for examination.

2. Separate forms may be used as follows:

(a) Small form pasted along edge of invoice. In a small concern, this may work very well, especially where one person does all the work of checking and approval. Should it become detached, however, it is virtually impossible to identify the invoice to which it belonged. In a large concern that fact presents a serious objection to the use of this method.

(b) Large form pasted along edge of invoice. A form which contains not only the information shown by the rubber stamp, but enough of the invoice itself so that it may be identified readily with it at any time, is preferable to the smaller sized sticker. This extra information would show purchase order number, date, from whom received, kind of material, and total amount payable.

The checking of an invoice should follow a natural course through the purchasing department. The purchase order is taken from its file and compared with the invoice to which it applies as to prices, terms, descriptions, sizes, and weights. Then the invoice is recorded on the reverse side of the purchase order, as has been suggested, so that no double payment of an invoice will occur, and so that too much material will not be

received, as often happens in instalment shipments. This reverse side may be ruled, if desirable, although usually that will not be necessary. The invoice is checked against an inspector's report, if any exists.

Another step in the checking of an invoice is to check it against the report of material received. This may be done either in the purchasing department or in the accounting department, although it seems more the duty of the purchasing than of the accounting department. If the stores department is considered as part of the purchasing department, this checking would not be done in the accounting department. This check will also prevent any overlapping in the payment of invoices.

The recording of material received is handled in a number of ways. It may be that a separate form is used, a "Material Received" form, in which event at least two copies are made, one of which goes to the purchasing department to be checked against the invoice, the other copy going to the stores-keeper as authority for making entry on the stores ledger of the goods received. It may be, on the other hand, that a copy of the purchase order has been sent to the receiving point to be used as a material received form. It may be, again, that a combination of the two is made use of, the copy of the purchase order notifying the receiving point that certain goods are expected, and a material received form being used on which to record the goods as received. In the chapter on stores four copies of the purchase order are used to illustrate this latter practice.

Where prices are not shown on a purchase order,

as is sometimes the case, the invoice must be most carefully checked as to prices. Freight charges and allowances must be carefully checked by the person in charge of the traffic and shipping. When this point has been reached the invoice in all probability will be passed to the accounting department for further consideration. The last step, therefore, in the handling of an invoice in the purchasing department would be the making of an entry in the invoice register to the effect that the purchasing department had passed the invoice on to the bookkeeper.

As soon as the invoice is received by the accounting department or the bookkeeper, the extensions should be checked. The amount of the invoice is then confirmed and classified, according to the accounts to be charged, and the approval of this classification is then secured. Entry is made in the books of accounts after approval. Subsequently, the invoice is approved for payment, paid, and entry made.

5. Procedure for Recording Invoices

The next matters for consideration are the records found in the accounting department or used by the bookkeeper, upon which the purchase invoices are recorded, and the procedure incidental to the recording. In considering them the subject will be approached from the viewpoint of the development that has taken place in these records.

In a small concern where no clear line of demarcation appears to exist between the purchasing and accounting departments, and where, in fact, the duties of both are handled without regard to whether they belong

to one or the other, the following routine is suggested for the handling and recording of invoices.

As received, all invoices are numbered consecutively, and dated in a prominent place with a rubber stamp or colored pencil. The number may be placed in the upper right-hand corner with a numbering machine. This number identifies the invoice all through the recording process and is repeated on the purchase journal in the number column provided. As soon as the invoices are stamped they are entered upon the purchase journal, after being checked for receipt of goods, quantity, quality, or amount. Each invoice as received may be stamped also with a rubber stamp containing spaces to record:

Checked
Compared
Corrected
Paid
Entered

As each of these operations is completed for a particular invoice, a check mark should be placed opposite the name of the operation; or the initials of the persons carrying out the operation may be used instead of the check mark.

The invoice is then used to check up the received goods and to check against the duplicate purchase order. Any corrections should be noted on the invoice, and goods should not be placed in stock if any difference is found between the goods and the invoice for them. When thus checked, the invoice can be used, if desirable, for marking the sales price on the goods. The invoices

must be analyzed to secure the correct entries for the stock ledger, unless these are secured by means of the list handed with the goods to the stores-keeper as mentioned in Chapter IX, § 9. Entries in the purchase ledger may be made directly from the invoices. Entries for the controlling accounts for "Departmental Purchases" and "Departmental Freight" in the general ledger will be secured from the purchase journal and the analysis thereof. If entries from the purchase journal be summarized on an analysis sheet and posted to the ledger by way of the general journal, the analysis sheet should be filed away in a properly marked envelope.

All invoices received should be filed away in consecutive order for use in checking goods as they are received. Invoices for material not yet received are left in an "unfilled" file. Invoices for material received but not yet paid for are kept in an "unpaid" file. Invoices for material received and paid for may be kept in a "permanent" file.

REVIEW QUESTIONS

1. What is an invoice register? How is it used?
2. How is the cash discount date of a purchase invoice kept track of so it will not be forgotten? What is the importance of so doing?
3. What are the steps in checking an invoice preparatory to approving it for payment?

CHAPTER XI

PURCHASE RECORDS

1. Recording Purchases

Up to this point some of the principal precautions that must be observed in making purchases have been considered. These points have been sketched in order, following the steps required in the handling of an ordinary purchase from the moment that the desire to obtain an article was manifested by the issuance of a purchase requisition, down through the sending out of the order, the receipt of the order, the purchase department activities concerned, the passing of the order to the bookkeeper, and the accounting department activities immediately concerned. It is now necessary to consider the recording of purchase expenditures in the books of account. Taking the documentary evidence as the starting point, the invoice must now be passed through the accounting department by means of a series of entries on the books. In other words, the accounting department acts as a clearing house for all the business connected with purchases.

All purchases must be paid for at some time, though but few of them are paid for at the time they are made. As to payment, purchases may be considered as:

1. Purchases made for cash.
2. Purchases made on credit.
3. Purchases made on a draft or note.

It is essential, therefore, that the purchase recording system should include these three methods of payment whether separate records are used in which to record each class, or one record is used in which to record all three. The underlying principle is the same, of course, in all cases.

The object of all original records for purchases is similar. In them purchase transactions are recorded in sufficient detail to permit ready future identification, and to make it possible at the end of an accounting period to obtain a complete list of each class of transactions. The transactions making up this complete list can then be debited to one set of accounts and credited to another either separately or in total.

2. The Three-Column Journal

Purchase transactions concerning goods bought on credit require that at all times information concerning the amount owed to any creditor shall be available for immediate use in connection with the settlement of the account. For this reason those portions of all entries which concern creditors' accounts should be posted immediately to the ledger accounts with creditors. On the other hand, it is not necessary to post every item to the Purchases account as soon as a transaction has taken place. For all useful purposes a monthly entry to the Purchases account is sufficient.

In order to make use of this idea and also to make possible the full use of other accounts to which it is not necessary to post every item concerned as soon as a transaction has taken place, special or extra columns may be introduced in the simple journal and in the

other records of original entry which have grown out of the journal. The purpose of these columns is familiar—to minimize the burden of posting. For example, if a third column is added to the simple journal, purchases can be recorded in it. If, during any accounting period, say a month, the purchase transactions number twenty, the use of the special column would save nineteen distinct postings, because the total of the column is posted in a lump sum to the ledger account with Purchases. The advantages of this device include not only a saving of time and labor, but a reduction of the chances of error.

Form 10 represents a three-column journal of this nature.

Month of August, 1919

Explanation	L.F.	General		Purchases Dr.
		Dr.	Cr.	
–17–				
Purchases—100 bbl. @ $10	√			$1,000.00
To J. Smith	13		$1,000.00	
–19–				
Purchases—10 bales @ $60	√			600.00
To H. Freeman	29		600.00	
–21–				
Allowances	14	$20.00		
To E. Brown	37		20.00	
–26–				
Purchases	√			200.00
To S. Roberts	31		200.00	
–31–				
Purchases, Dr.				$1,800.00

Form 10. Three-Column Journal, with Purchases Column

3. The Purchase Book

The simple three-column journal outlined will prove inadequate for purchases except in the smallest kind of a concern. By taking the purchase column out of the journal an original journal record may be provided which will take care not only of all purchases, but of expenses also if that is desired. Merchandise bought may first be considered and entries made in a separate book, the purchase book (Form 11). The purchase book differs only slightly from the journal. For a small concern it may be very useful. Its advantages are:

1. It relieves the general journal.
2. It facilitates posting.
3. It facilitates recording of merchandise purchases.
4. It reveals clearly the volume of purchases.

In its simple form the book resembles a day-book.

PURCHASE BOOK
Month of August, 1919

	–1–		
19	Smithers & Bond, 2/10, n/30		
	100 bbl. Sugar @ $17.50	$1,750.00	
	10 bu. Potatoes @ $3	30.00	$1,780.00
	–2–		
27	Jones & Callaghan		
	100 sacks Flour @ $1.30	130.00	
	10 cases Grapefruit @ $4.50	45.00	175.00
	Merchandise Purchases, Dr.		$1,955.00

Form 11. (a) Purchase Book—Simple Form

Instead of copying each invoice in full in the purchase book, as is done in the illustration above, this work

may be eliminated by giving each invoice a number as soon as received. This number is entered before the name of the creditor. (See Form 11b.) Should it then be necessary to refer to an invoice, the number is looked up and the invoice is found in its numerical file.

PURCHASE BOOK

Date	Invoice No.	Name and Address	L.F.	Amount
1918				
Aug. 1	1	Smithers & Bond	19	$1,780.00
2	2	Jones & Callaghan	27	175.00
10	3	Wilson & Waters	20	500.00
15	4	Smith & Albert	21	98.00
23	5	Excelsior Co.	19	191.00
		Merchandise Purchases, Dr.		$2,744.00

Form 11. (b) Purchase Book—Approved Form

It should be noted, however, that in the case of a large concern the use of the above form of purchase book is objectionable because (1) it is cumbersome; (2) extensive distribution is impossible.

4. Purchase Book Posting

Every creditor whose name appears on the purchase book is credited in his respective account on the ledger for the amount shown opposite his name. The debit is made once, at the end of the month, to the Purchases account on the ledger, for the total amount as shown.

5. The Invoice Book

In recording purchases in a record separate from the simple journal it was once common practice to make

use of a large blank-book, or rather scrap-book, in which invoices received from creditors were pasted on the blank space. This book had from one to three columns, usually as follows:

Total
Discount
Net Amount

The total of each column was carried forward until the end of a month or other period. Then postings were made, the individual invoices, less discount, being posted to the credit of the creditors, the total to the debit of the Merchandise account, and the discount to the credit of the Discount account. The book was really a simple purchase journal.

This method of recording purchases was objectionable for the following reasons:

1. It was cumbersome.
2. Invoices could not readily be located when wanted.
3. Extensive distribution was impossible.

6. Columnar Purchase and Expense Journal

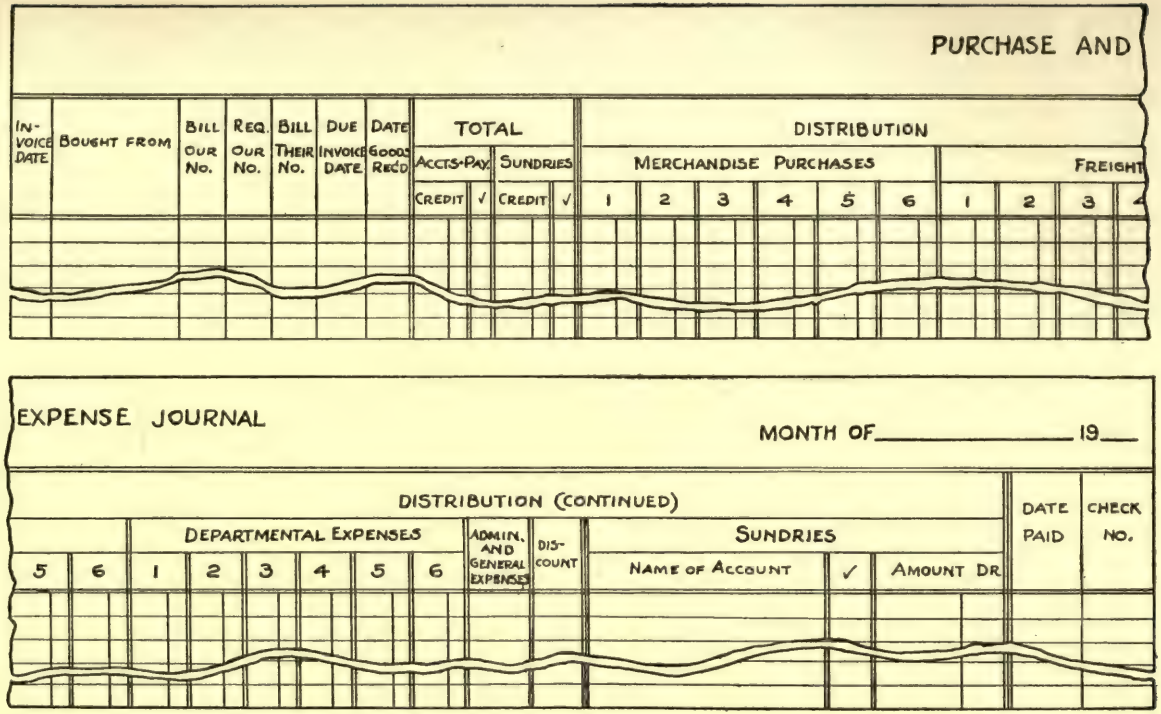
In the recording of purchases several accounts are involved, and a number of separate columns are placed upon the purchase journal, each column representing an account to which a fairly large number of purchase transactions may eventually be charged. The idea behind the three-column journal is expanded just a little further in this manner. Instead of one column in which to keep purchase amounts, many columns are used. By writing the amounts in the proper columns, these col-

umns may be added at the end of each accounting period and each total thus secured be charged or credited to the account in the ledger to which the transactions belong.

It is sometimes desirable, for instance with a departmentalized enterprise of fair size, to include the expenses with the purchases in a single book. The journal would accordingly provide debit columns for:

Purchases of each department
Freight on purchases of each department
Expenses of each department
General expenses
Sundry items

In the mercantile form presented (Form 12) which in a general way indicates what such a form should contain, only one expense column for each department has been provided, together with one column for administrative and general expenses, because if extended further the book might be too cumbersome. It is assumed that during any one month the entries in any one column will not be excessive. The analysis of these expense columns, the analysis corresponding with the schedule of general ledger expense accounts, as for example those presented for a department store in Chapter XXIII, can be made in a short time. The analysis of these columns will be posted to the general ledger in total from the analysis sheet. Details concerning the analysis should be written in the purchase book following the entries for the month, so that they may be of permanent record and may be a guide to locate the voucher, if the latter is filed. Other columns may be added if desired.



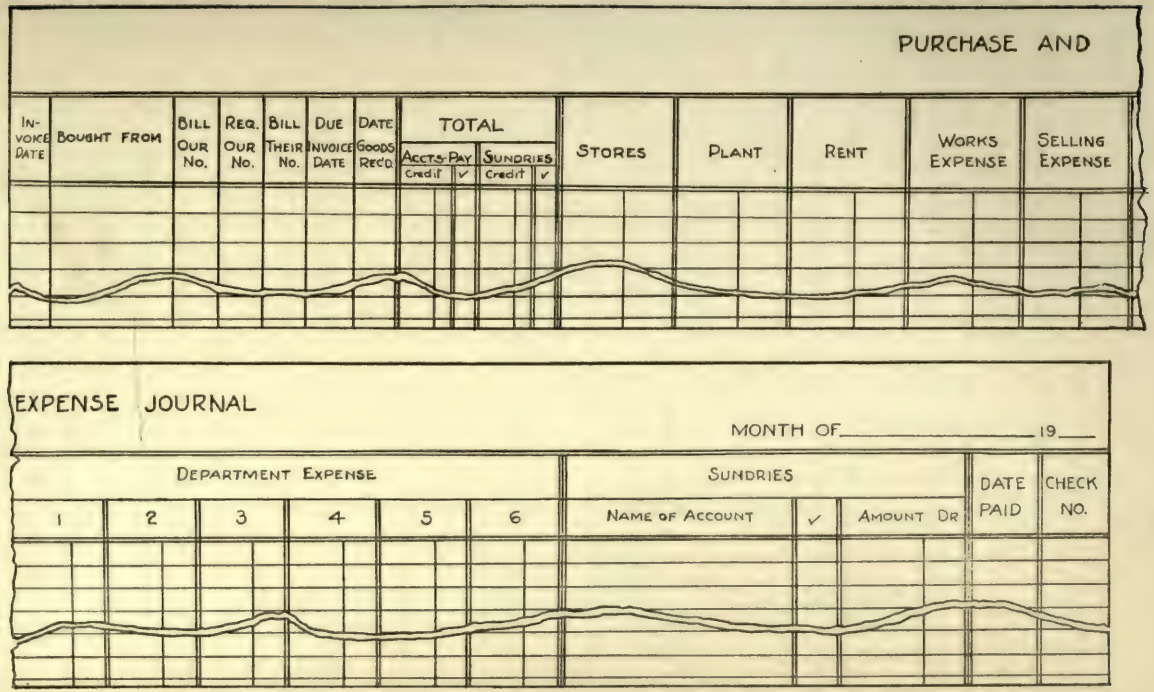
Form 12. Columnar Purchase and Expense Journal—Mercantile (left- and right-hand pages)

A check on the accuracy of the record may be secured as follows: Add the various columns. The sum of these should agree with the sum of the various invoices. This may be done each day; additions can be made on the adding machine.

A list of all unpaid invoices may be obtained easily at any time by listing and adding items not yet entered in the "Date Paid" column of the purchase journal. The total secured in this way will "prove" the Accounts Payable account (general ledger control) in the trial balance. It is a good plan to prove this account as suggested when the regular invoices are paid, usually once a week, just after the checks are made out. This method will disclose an error which otherwise might remain hidden until the regular periodic trial balance.

In the manufacturing form presented (Form 13), it will readily be seen that the various columns are very similar to those of the mercantile form. The first columns of both forms present a written description of the item so that its identification at any subsequent time is made easy. In the remaining columns the various charges are sorted out so that they may be allocated (distributed) to the proper accounts. Some of the columns of the second form need slight explanation.

In the stores column are charged all purchases of materials and stores regardless of where they subsequently go. In the plant column are charged all purchases of plant and new equipment. The rent column needs no explanation; it is possible to charge herein not only rent, but taxes and insurance. The column for works expense collects all sundry charges against the factory which cannot be charged against any certain



Form 13. Columnar Purchase and Expense Journal—Manufacturing (left- and right-hand pages)

department when the record is made. The selling expense column is for items belonging to the selling department. Expense charges which can be charged directly to departments are entered in the department expense columns—in the illustration given it is assumed that there are six departments. Sundry items, those of infrequent occurrence, are taken care of in the sundries columns.

As has been said, the development of a columnar record depends entirely upon the business under consideration. Only a general idea of the necessary rulings can be presented here. Under certain conditions the stores, plant, and the selling expense columns may be subdivided. The more columns used, the larger the book and the more difficult to use conveniently.

The periodical closing is done in the same manner for both forms given above and a check on the work of each record is readily secured.

The advantages of a columnar purchase book over the simple journal procedure of handling purchases may be stated as follows:

1. When a business has become at all large, one person cannot attend to all the bookkeeping work required. He needs assistance. When assistance is given him, the assistance proves of little use unless all may work undisturbed. Since the purchases have been taken out of the journal, the one working on the purchase record, as a separate record, need not stand idle when another person has to consult the journal for another purpose. In other words, a division of labor is possible, and many clerks may be employed.

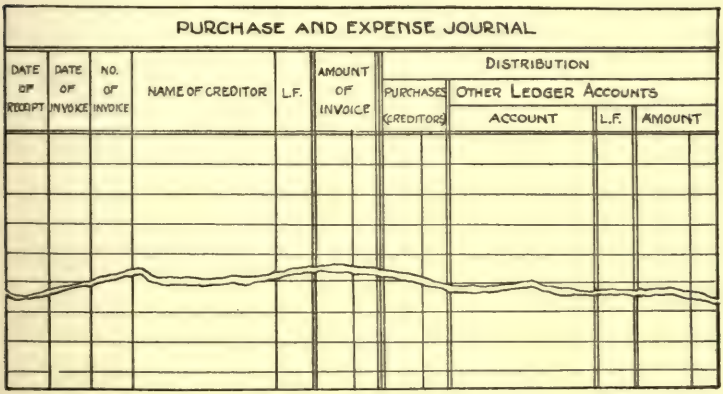
2. About one-half the posting is eliminated.

3. The columns permit immediate classifications of amounts.

4. The column totals are of great use in securing control figures and proof figures.

7. When Columnar Purchase and Expense Journal Is Undesirable

If it is desired to use the record both for invoices of purchases and for expenses, when the expense accounts involved render a columnar book undesirable, the following form of purchase and expense journal (Form 14) may be used. By means of it transactions



Form 14. Purchase and Expense Journal

may be recorded chronologically and may be posted monthly to the controlling accounts of purchases and creditors. The total of the purchases column is posted to Purchases account and to creditors for merchandise. The detail items in the last column are posted to the debit of the appropriate accounts and to creditors for expense.

8. Purchase Journal vs. Voucher Register

A variation of the purchase journal frequently made use of is the voucher register. Something has already been said in Volume I concerning this record. Its ruling is practically identical with that of a purchase journal except that no provision is made for posting individual items to creditors' accounts.

Since there may be a question as to the exact difference between these two books, it seems advisable to point out the distinction. Briefly, the primary distinction between the use of the purchase journal and the use of the voucher register is, that a ledger account with each creditor is kept in connection with the purchase journal, whereas such a ledger account usually is not kept in connection with the voucher register. Where the voucher system is used the accounts payable are kept on the voucher register and no ledger accounts with creditors are opened.

Take as a basis two simple similar forms, one a purchase journal (Form 15) and the other a voucher register (Form 16).

In the operation of the purchase journal, the procedure concerning an invoice is usually as follows: the receipt of the invoice, goods checked against invoice, prices examined, footings and extensions checked, entry in purchase journal. At the end of the period, such as a month, the purchase journal is footed and the amount in the total column posted to the credit of Accounts Payable control, the individual amounts being each credited to the respective creditors. The amounts of the distribution columns are posted in total to the debit of the proper accounts on the general ledger.

PURCHASE JOURNAL

Date	Name	L.F.	Total	Distribution of Debits		
				Trading Mdse.	Equipment	Office Expense
1919						
June 8	Jones & Smith	20	50.00	50.00		
10	Brown	35	20.00			20.00

Form 15. Purchase Journal

VOUCHER REGISTER

Date	Name	Vo. No.	Total	Distribution of Debits			When & How Paid.
				Trading Mdse.	Equipment	Office Expense	
1919							
June 8	Jones & Smith		50.00	50.00			
10	Brown		20.00			20.00	

Form 16. Voucher Register

When a concern has cash with which to pay all bills promptly, and pays the whole of each bill at once, instead of using the partial payment plan, the creditors ledger may be eliminated by combining in the voucher register the functions of both ledger and journal. Entries on the register are made exactly as on the purchase journal, so far as the total and distribution is concerned. But, since the creditors ledger is eliminated, the single line on the register must answer the same purpose, so far as each transaction is concerned, as if the regular ledger account were opened. The total column entry is the credit. The entry in the "When and How Paid" column may be considered as the debit which cancels the

credit. The payment to each person must be equal to the amount against him in the total column.

The handling of invoices and the bookkeeping involved under the voucher register system are very similar to that under the purchase journal system, except that sometimes instead of entering invoices individually, as is done on the purchase journal, they are temporarily suspended in a file, and later when enough have accumulated, are sorted as to creditors and entered on the register.*

9. The Voucher System

When the voucher system is used, not only purchases, but all payments of whatever nature, are entered on the voucher register. The rulings are seen to be about the same as for a purchase journal and the same columns in the cash book and journal are necessary. Everything is passed through the register, whether payable at once or in the future, so that there may be found in one book a distribution of all items. By having the distribution in one book it is unnecessary to refer to or post from a number of different records. Since creditors' accounts are eliminated when the voucher system is in use, only one account with "Vouchers Payable" or some such title is needed in the general ledger and the cash book has columns only for vouchers payable, discount, and cash, on the right-hand side. The Vouchers Payable account corresponds to the creditors' control account.

The working of the voucher system has been discussed thoroughly in Volume I, Chapter XXII. A

*See the complete form of voucher register given in Volume I, Chapter XXII.

brief recapitulation, however, of its advantages and disadvantages may be useful here.

1. When should the voucher system be used?

(a) The business using it should have cash with which to pay all bills promptly. If credit is taken to a large extent, the voucher system is a source of much confusion.

(b) The concern should pay the whole bill at once instead of using any partial payment plan.

(c) A business which has a large number of creditors, the transactions with each being but few in the course of a year, does not require a ledger account with each creditor.

2. What are the advantages of the voucher system?

(a) The elimination of ledger accounts with creditors saves much labor, since there is no posting to individual accounts.

(b) An essential part of the system is that the voucher, properly approved, prevents payments from being made without authority.

(c) The course of a bill from its receipt to its payment is systematized, since each one must go through a certain regular procedure.

3. What are its disadvantages?

(a) The full extent of all transactions with a creditor and the present status of his account cannot as easily be determined as when ledger accounts are kept. Yet if the important creditors are few in number, a ledger account may be kept for each one of these few from which to secure information, and the voucher record be kept for the others.

(b) If frequent purchases are made from one creditor, and each invoice is entered separately, a great many vouchers will accumulate in his favor. It might take a considerable length of time to locate any one particular invoice whose date is not remembered. Most of these objections may be eliminated, however, by one of two methods. Space may be left in the register to be filled up by the invoices from such creditors, or such invoices may be temporarily suspended in a file, to be sorted as to creditors when enough have accumulated and then entered on the register. In that way one voucher may be made to cover a number of invoices, provided they are in the same month.

(c) The formality connected with the preparation and approval of the voucher, although of no consequence so far as routine matters are concerned, sometimes becomes very objectionable when a payment must be made at once, out of the regular course of events. At such times it may become necessary to pay in an irregular manner.

(d) An occasional partial payment causes trouble. In such a case it is possible to make two new vouchers, one for the part paid, and one for the part not paid, the two being charged through the register sundries column to cancel the original.

In other words, whether or not a voucher system should be put in use depends entirely upon the business under scrutiny. It is not possible to lay down any but a general rule as to when and when not to use the system. Each business must be considered as a separate case, its problems to be solved by a careful consideration of its own particular difficulties.

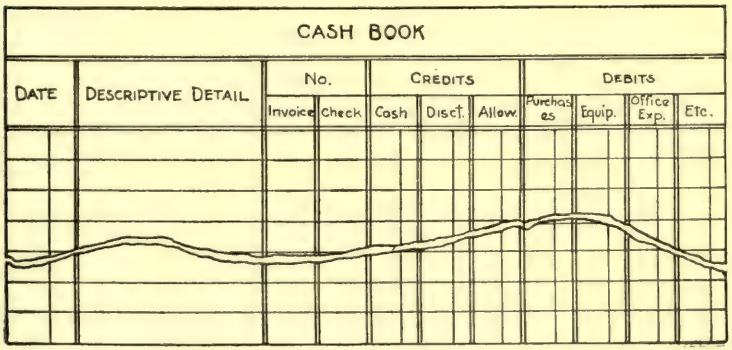
10. Statement Vouchers

When checks are sent out, they may be accompanied by a statement voucher on which are listed all invoices covered by the check, with their designating numbers, corrections, etc. Copies of these statements may be filed by dates under the proper creditor's name.

The use of copies of these statement vouchers enables all dealings with a creditor to be kept together in such shape as to serve all the purposes of an individual purchase ledger account, perhaps thus quite eliminating the latter. These statements may be checked against the voucher register or purchase journal with which they are used.

11. Handling Invoices Without a Record of Creditors

One method of handling purchase invoices requires no record of creditors at all. It may be used where partial payments are not made, or where few purchases are made, one or so a year with a creditor, or where it is not necessary to keep full information concerning creditors by opening a ledger account with them. The



Form 17. Cash Payment Book Where No Creditors Ledger Is Kept

invoices are gathered into proper files by creditors' names, with no attempt made to keep a creditors ledger. The invoices are filed only when goods have been received, and the document itself has been audited. Periodically the invoices are taken out of the file and checks are drawn for the net amounts after discounts and allowances have been deducted. When the checks have been drawn a record is made in the cash book, ruled as in Form 17. One entry is made for each creditor paid.

12. Cash Purchases

Invoices which are to be paid immediately may be disposed of in two ways. The invoice may be entered in the usual way in the purchase book or voucher register, and the cash paid entered in the cash book, or the Purchases account may be debited direct from the cash book, for which a special column may be kept. The first method is preferable, no distinction being made between purchases for cash or for credit.

REVIEW QUESTIONS

1. Describe at least four methods, with forms, for recording invoices payable and state your preference.
2. Describe a method of recording purchases that will obviate the necessity of keeping individual creditors' accounts.
3. How may a journal be utilized for recording invoices for purchases and expenses, when the number of expense accounts involved renders a columnar book unfeasible, if the chronologic recording of transactions and one monthly posting to creditors' controlling account and purchases are permitted?
4. Compare the use of a purchase journal with that of a voucher register in the same line of business.
5. How are partial shipments on account kept track of?

CHAPTER XII

PURCHASE RECORDS (CONTINUED)

1. Monthly Summary of Purchases

A monthly summary of purchases (Form 18) shows at a glance the total purchases for each department made during the month.

A cheaply bound note-book, ruled both ways, may be used. One sheet is used for each month, twelve sheets for the year. In the left-hand column are letters representing the several departments; the columns across the page are headed with the days of the month, and in these are entered the total purchases of each department for each day. A cross addition at the end of the month will show the total purchases for the month for each department.

DEPT.	1	2	3	4	5	6	ETC.	TOTAL
A								
B								
C								
D								
E								
F								

Form 18. Monthly Summary of Purchases

2. Merchandise Returned Memorandum

A slip about 5 x 7 inches should be filled out whenever an allowance is made on a purchase, or goods are

returned or in part returned to the seller. (See Form 19.) These slips may be in duplicate, made up into pads containing 100 each, and numbered consecutively. From these slips the charges are entered in the allowance book or register.

The entries for the subsidiary ledgers—purchase and stock ledger—will be made at the time the memorandum is entered in the allowance book, the entries to these ledgers usually being made direct from the memorandum itself.

MERCHANDISE RETURNED MEMO

No._____

Date_____ 19__

_____ Your Invoice No._____

_____

GENTLEMEN:

We return merchandise this day and debit your account as follows:

.....	.....	.....	.....
.....	.....	.....	.....
.....	.....	.....	.....
.....	.....	.....	.....

Goods shipped via_____ Stock Ledger Acct. Cr._____

For credit of Department No.— Purchase Ledger Acct. Dr._____

CARSON TRADING COMPANY

By_____

Form 19. Merchandise Returned Memo

After the entry is made in the allowance register, the memorandum slips may be placed in a box file or clip file, and after each month's slips have been entered and analyzed, they may be fastened together and filed permanently with the accompanying analysis and journal voucher. (See § 4.)

3. Return and Allowance Register

The form used for returns and allowances on purchases (Form 20) is about 8½x11 inches, ruled on common stock paper. The charges on the merchandise returned memo slips are entered on this register. From the amounts shown an analysis is made (see next section), and the proper charges are then entered on the books of account partially by way of the journal.

Sheet No._____

RETURN AND ALLOWANCE REGISTER

PURCHASE DEPARTMENT

DATE	TO WHOM	DEBIT ACCOUNTS PAY	CREDIT		MEMO. NO.
			DEPT.	AMOUNT	
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....

Form 20. Return and Allowance Register

The allowance register should be closed each month. At the foot of the last sheet for the month a notation should be made to indicate the journal voucher which contains its analysis.

At the end of each posting period the register is analyzed according to departments, so that the proper entry may be made in the general ledger accounts through the general journal. For each month's allowance analysis, a journal voucher may be made out or, if desired, the analysis may be used as the journal voucher.

From the analysis sheet or the voucher summary, if the latter is used, will be made the journal entry, in which the proper adjustment to the department accounts is indicated as follows:

Accounts Payable..... $.....
To Departmental Purchase Accounts. $.....

4. Return and Allowance Register Analysis

The use of the analysis sheet of allowances (Form 21) which is drawn up on a sheet at least 8½ x 11 inches, has been referred to in the last two sections. The totals of the analysis sheet are posted as follows: Credit the departmental purchases controlling accounts in the

ANALYSIS SHEET OF ALLOWANCES

Dept. A		Dept. B		Dept. C		Dept. D		Dept. E		Dept. F	

Form 21. Analysis Sheet of Allowances

general ledger and also the respective detail accounts in the stock ledger. Debit the creditors ledger control (Accounts Payable) in the general ledger and the respective accounts in the purchase ledger.

The totals of this analysis sheet must agree with the totals as shown by the return and allowance register.

5. Debit Memorandum

If after extensions have been made on the invoices and the invoices have been entered in the books of account, an error should be discovered in favor of the business, it may be desirable to make use of a debit memorandum (Form 22). The form is made out, passed, and entered in the regular way as an allowance. In size the form should be about 4 x 6 inches. It should be made in duplicate, so that one copy may be sent to the seller as a notification.

The entries required are as follows: Debit the account in the purchase ledger that is affected, and Accounts Payable in the general ledger; credit the departmental accounts in the general ledger and the stock ledger accounts.

CARSON TRADING COMPANY

DEBIT MEMO

Date_____ 19____

Debit account of.....

the sum of $..... on account of .....

.....

.....

.....

.....

O.K._____ CARSON TRADING COMPANY

Credit Dept. No._____ By_____

Form 22. Debit Memorandum

6. Credit Memorandum

The use of the credit memorandum (Form 23) is similar to that of the debit memorandum, except that in this case the error discovered is against the house and in favor of the creditor. This credit memorandum is entered in the regular way as an invoice. In size the

form should be about 4 x 6 inches, and it should be made in duplicate, so that one copy may be sent to the seller as notification.

CARSON TRADING COMPANY

CREDIT MEMO

Date_____ 19____

Credit account of.....

the sum of $..... on account of .....

.....

.....

.....

.....

O.K._____ CARSON TRADING COMPANY

Debit Dept. No._____ By_____

Form 23. Credit Memorandum

The entries required are as follows: Debit the departmental accounts in general ledger and the stock ledger accounts; credit the account in the purchase ledger that is affected, and Accounts Payable in the general ledger.

7. Consignments Inward

The handling of consignments inward is considered in Chapter XVI, § 19; it is not necessary to discuss them at this point.

8. Conclusion

The system to be used for handling purchases depends entirely on the business under consideration. As businesses vary greatly both in kind and in size, as well as in the extent and in the variety of their purchases, it would be unwise to lay down rules to cover all cases. Each separate case must be determined by careful ex-

amination of its own distinct problems. Preference for one system over another depends upon such matters as strength of office force, quantity of invoices received. financial status, etc.

REVIEW QUESTIONS

1. Why should purchase transactions be summarized periodically? How is this done?
2. What is the purpose of a merchandise returned memorandum? How is the information contained disposed of eventually?
3. What is a debit memorandum for purchases?
4. From what has been said concerning the subject of purchases, what basic principle do you think should be borne in mind when solving any purchasing problem?

CHAPTER XIII

STORES SYSTEMS

1. Stores Organization

For greater convenience the various matters specially connected with stores have been passed over in the general treatment of purchases and are here presented by themselves.

Organizations handle their stores in various ways. Whether directly under the supervision of the purchasing agent or not, the handling of stores is closely allied to the purchasing activities. The important point to bear in mind is that a stores system improperly kept is the source of serious leaks and losses. The factors of time, space, and money invested should be carefully considered when planning a stores system.

1. Time. If each individual goes to the stores department when he needs any article, it results in many trips a day and wastes much time.

2. Space. Stores may be scattered over the place, occupying space that could be used to better advantage. Too much of some goods may be on hand, the excess amount occupying space that could be better used.

3. Money. All surplus stock ties up working capital. Further, unnecessary help in the stores department is a waste of money in another way. On the other hand, a lack of proper material wastes money; in the case of a manufacturing concern, for instance, jobs already in process have to be laid aside.

If the system of handling stores is organized it may be either:

1. A separate department, with a force and accounting system provided, but not sufficiently tied up with the main office so that the latter may control its workings; or
2. Organized, as above, but with control highly centralized. A special supervisor in the main office controls the stores department.

2. Stores Defined

The term stores is very often used with different meanings. In manufacturing, "stores" may refer to raw materials and partly finished articles, while the finished product is known as "stock." Here the term comprehends all articles which at some time or other during the course of business will be charged out as consumable articles, that is, articles which will be charged out at some time for manufacturing, service, or sales purposes. Before this charging out time arrives, stores must be guarded and a proper record must be kept of their incomings and outgoings so that at all times the balance on hand may be known.

Some purchases may be charged out as soon as received. Others are not so chargeable. Some purchases are used up gradually, like pig iron or cloth, and such purchases cannot be charged out all at once. The pig iron is used in production gradually; the cloth is sold off the shelves gradually. They cannot properly be charged against a current week or month, because after that period has passed some still remains on hand. Therefore, all purchases which cannot be charged out at

once require some system by means of which the proper amount may be charged out in each current period and by means of which the proper amount remaining on hand may be ascertained. Since goods and material are an investment of cash, careful protection should be placed around them and as exact accountability required from those in charge of them, as if cash itself were concerned.

3. Uniformity in the Stores Department

In an organization which has done nothing in the way of developing standards of products or standard methods, the development of the stores department must begin outside that department. Standard methods of buying must be adopted before a proper stores system can be installed. Information should be on hand to show the kinds and quantities of the various materials to be purchased daily, weekly, monthly, etc., as required. Past performances and present orders will show how this is to be determined. If this information is obtainable, the establishment of maximum and minimum amounts is possible. When maximum and minimum amounts are established, loss of capital due to unnecessary purchases of materials and supplies is prevented and losses in time are eliminated.

4. Minimum Stores

For a trading business the basis for estimating the minimum of stores is the time it takes to receive the material from the market after the purchase order is issued. If twenty days must elapse from the date of issuing the purchase order to the day of receipt, the

minimum stores must be sufficient for that length of time. In a manufacturing concern, where finished goods must be considered, the minimum depends upon the probable shipping orders to be filled at various times of the year, the time it takes to receive certain material into general stores from the market, and the time required to manufacture the same into the particular goods under consideration. When stores reach the minimum amount, danger is ahead unless action be taken at once. A minimum supply must be sufficient to insure at all times against the possibility of running too low.

5. Maximum Stores

The maximum amounts are more or less arbitrary. The essential thing here is to watch demands and provide for them. A maximum supply must not be so excessive as to tie up capital that should be active, or to leave seasonal goods on hand to become shopworn and out of fashion. The more nearly the maximum and minimum approach the requirements, the greater judgment is shown and the larger the resulting profit.

6. The Stores Problem

In an establishment in which stores must be considered, the problem relating to them will be found to be made up of four major considerations:

1. Receiving
2. Storing
3. Delivery
4. Accounting

In other words, stores control begins with the demand for material, proceeds to the storing of material,

passes to the work connected with its issue, and ends with determining the balance on hand.

7. Receipt of Materials

The material having been requisitioned and a way provided for its purchase, means must be provided for taking care of it when it arrives.

The stores-keeper may receive the material, or a receiving clerk may have this duty, as would be the case in a large concern. No matter on whom this duty falls, the work divides itself as follows:

1. To receive
2. To receipt for what is received
3. To deliver either to stores or to departments

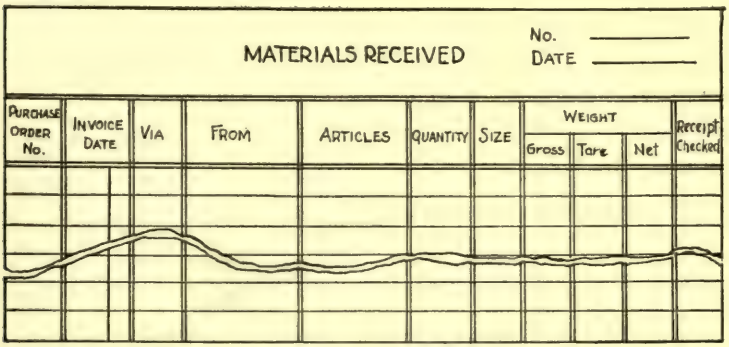
In the receiving department a copy of the purchase order should be on file. No material should ever be received unless this copy is on hand to refer to and check with the material coming in. Otherwise, goods not ordered may be received, or goods may be received against orders which have been canceled. The invoice should never be used for this purpose of checking. The copy of the purchase order may be blank as regards quantities and values, to make the receiver exercise great care in checking incoming goods and not pass any without scrutiny. In some cases, however, amounts may be given, since it may be desirable to catch quantities in excess of the amount ordered before the goods reach the stores bins. Sometimes a special form upon which to record receipts of goods and materials is provided for the receiving department.

The methods for reporting receipt of goods are

many. Assuming that a receipt form for ordered material has been made out in quadruplicate:

1. One copy remains in the receiving department permanently.
2. The second copy is sent to the purchasing agent.
3. The third is sent with the goods to the stores-keeper.
4. The fourth is sent to the accounting department.

It is assumed here also that the receiving clerk and the stores-keeper are not the same person. Even if this is the case the stores-keeper must receive the goods into the stores-room in a proper manner. The four copies of the receipt form for ordered material are practically the same except for one column. The forms may be handled so that each shipment as it comes in is reported separately, or so that all the arrivals for one day are shown on one form. Form 24 may be used when all arrivals for one day are shown on one form; Form 25 when each shipment is reported separately as received.


MATERIALS RECEIVED

No. _____

DATE _____

Purchase Order No.	Invoice Date	Via	From	Articles	Quantity	Size	Weight			Receipt Checked
							Gross	Tare	Net	

Form 24. Materials Received Report—Daily

The information such a form should contain may be indicated here. In the original copy of Form 25, the last line filled in shows by whom the goods were received; it contains the initials of the receiver. In the second copy, the last line shows by whom the invoice was checked; it contains the initials of the person checking the invoice. In the third copy, the last line shows the entry into the stores record; it contains the initials of the person entering the items on the stores record. In the fourth copy the last line shows the value as taken from the invoice.

MATERIALS RECEIVED

No._____

Purchase Order No._____

Name_____ Date_____ 19__

Articles	Quantity	Size	Weight		
			Gross	Tare	Net

Invoice Date_____ Checked with Invoice_____

Received via_____ Entered in Stores Record_____

Received by_____ Value $_____

Form 25. Materials Received Report—by Shipments

One or two more points should be noticed before passing on. Sometimes goods must be sent direct to the departments concerned as soon as received instead of being passed through the stores department first. In this event, the goods may be sent to their destination accompanied by the stores-keeper's copy of the materials received report. This is signed at the desti-

nation point and sent immediately to the stores-keeper, who then passes it through his records as if the material had gone through the stores department before being issued. In other words, the stores-keeper enters the goods as a receipt and then immediately enters them as a delivery.

Goods returned from customers must be carefully taken care of by the receiving department. These will be considered from the accounting point of view when the subject of sales is taken up.

8. Stores Accountability

It was said above that there should be as much care exercised over the goods and materials kept in stores as over the cash drawer. The stores-keeper assumes responsibility for what he receives and this responsibility remains fixed upon him until these articles have been issued upon proper authority. Therefore, stores accountability from the standpoint of the stores-keeper begins with the making of a proper record of everything which he actually receives.

The goods, as soon as they are received, should be placed in proper receptacles either in a central location, or in a number of locations near departments in which the material will be used. The latter method may require duplicate locations for similar stores, but time is saved in trips to and from the stores-room. Material in stores should not be accessible to any person not definitely authorized to handle it, except in the case of heavy pieces which, though carried on the records, may be left outside of the stores-room or even out in the open.

It must be kept in mind that the least possible number of stock accounts should be used, consistent with the needs of the business and the available time of the person responsible for making the proper records in the books of account. Each different kind of stores usually requires a separate accounting for receipts and issues.

The system of stores records should be elastic in that it should be possible to increase or decrease the number of accounts used whenever it is deemed advisable. If, for example, it is desired that the "Ribbon" account be subdivided, that should be done readily by subdividing the current accounts as kept. Care must be observed in the case of any such subdivision that the departmental distribution of sales be changed likewise so as to meet the changed condition of the stores ledger.

Since there must be a separate accounting for receipts and issues of each kind of stores, a card form for each kind may be used for this purpose.

The loose-leaf form is by all means the proper one for the stores ledger. In that form each sheet may be kept in order, a leaf for each account, and each group of accounts in alphabetical order.

The card form of the loose-leaf scheme is better than the ledger sheet form. The cards may be kept in a loose-leaf file or box for ready reference and use. Any group of cards may be removed from the file quickly when work is to be done on them, and the file capacity is limitless. The cards should be at least 7 x 9 inches in size and should be arranged so that record can be kept of the stock by quantity only, or by quantity and price. (See Form 26.)

The three parts of the stock card represent the main stages of the stores procedure—receiving material, issuing it, and determining the balance which is on hand at any time.

9. "Purchased" Division of Stores Ledger

The first entry upon a stores ledger card will be recording the receipt of the item with which it is concerned. This may be by quantities only, no attention being paid to prices, or it may be by quantities and prices. The stores card (Form 26) is ruled for the latter purpose. In some cases even the cost of freight is included.

If it were desired to install such a ledger, what would be the course of procedure? It would be necessary first to secure an inventory of all stores on hand. This inventory then would have to be cut up into accounts, that is, analyzed. The first entry on the stores ledger would be the stock inventory at cost on a certain date, the date of opening the books. This entry would be made direct from the analysis of the inventory sheets, prepared for this purpose, to the purchased division of the form. After the inventory and analysis sheets had served their purpose, they would be fastened together, and the whole filed away with a journal voucher—placed in the envelope voucher, if that style of voucher were used. If the papers are too numerous, the analysis sheets only may be placed in the envelopes or attached to the voucher.

The voucher is properly filled out, and, assuming the general accounting books contain thus far no entries concerned with stock, the results are recorded

----------COMPANY

UNIT _____

STORES

KIND _____ NUMBER _____

DESCRIPTION _____

SIZE _____ WEIGHT _____

ACCOUNT NO. _____

CARD NO. _____

MAXIMUM _____

MINIMUM _____

PURCHASED								SOLD (or ISSUED)					BALANCE		
Date	Order No.	Quantity	✓	Price	Cost per Unit	✓	Total Cost	Value	Date	Order or Sale No.	Disbursed	Unit Price	Quantity	Unit Cost	Value

Form 26. Stores Ledger Card

YEAR	DEBITS						CREDITS						BALANCE			
1919	NET PURCHASES		TOTAL RETAIL		MARK-UP		NET SALES		REDUCTIONS		TOTAL CREDITS		RETAIL		COST	
Inventory Jan. 1	1000	00	1400	00	40%								1400	00	1000	00
January	250	00	337	50	35%		300	00	25	00	325	00	12	50	9	26
Total	1250	00	1737	50	39%		300	00	25	00	325	00	1412	50	1009	26
February																
Total																

Form 27. Stores Ledger with Mark-Up

properly in the general journal. The journal entry as made is then posted to the general ledger as:

Purchase Stores Accounts Department..... $.....
To Capital..... $.....

10. "Sold" Division of Stores Ledger

The entries here are made from the recapitulations of sales (see Chapter XVI, § 13) in the case of a mercantile concern, or from the record of the different quantities of material issued to the shop, in the case of a manufacturing concern.

The issuance of stores is a matter of importance. Only authorized persons should be allowed to sign requisitions for withdrawing material and supplies from stores. In a manufacturing establishment the foreman who needs materials for his men may be one of these authorized persons. The requisition in that case should be at least in duplicate, numbered, and each copy of a different color, so that a duplicate will never pass through as an original. The original copy signed by the person desiring the material would be sent to the stores-room and the duplicate held back until the material called for by the original had been delivered. The stores ledger entries are then made from the original, which is finally sent to the accounting department. The duplicate is also sent to the accounting department as soon as the material for which it calls has been received.

When excess material has been drawn, or when for some other reason material is to be returned to stores, a credit requisition is made out by the person who has material to return. This requisition is in duplicate,

both copies being sent the stores-keeper with the returned goods. These copies the stores-keeper signs, returning the duplicate to its source, from which it goes to the accounting department; the original he uses as the basis for his stores ledger, and afterwards sends it to the accounting department.

The same idea underlies accountability in a mercantile establishment. Here, however, care must be taken to secure proper accountability for goods issued, so to speak, to the shelves and counters. Stock is found in these places as well as in the bales, boxes, and bins in the warehouse.

11. "Balance" Division of Stores Ledger

At the close of each day, week, or month, or whenever desired, a balance should be found for each ledger card. When this balance is found the quantity should be checked against the actual quantity of that item on hand. A few cards may be checked over in this manner every day, so that as a whole the stores ledger will give a true continuous inventory at all times.

Footings and balances should be in red ink. On the form presented the quantity column will contain the difference between the total quantity purchased and the total quantity sold. The unit cost column will contain the average cost per unit, which will be the total cost column in the purchased division, divided by the total of the quantity column in the purchased division. This unit cost multiplied by the quantity on hand will be carried to the value column. In some cases keeping the "average cost" is not advisable. Then the actual cost is carried out in the manner indicated.

All adjustments because of allowances, returns, debit and credit errors, will come through from forms previously described: the allowance memorandum sheet, the debit memorandum sheet, and the credit memorandum slip.

The total balance of all the accounts on the stock ledger theoretically should agree at all times with the balance of the totals of the Purchases (Stores) accounts —perhaps departmentalized. If freight has been added to the purchase price of goods and has been carried into the stores ledger, this item as found on the general ledger must be taken into consideration also. Practically, however, this agreement between the stores ledger and the general ledger is something rarely found. Experience has shown that usually a discrepancy will exist in spite of the efforts of the organization officials. But a carefully laid out stores system should and will keep the amount of this difference at a low figure. If prices are carried on the stores ledger, and not quantities only, this reconciliation will be materially assisted.

The general ledger account with Stores, or Purchases, is the controlling account for the stores ledger. If departmental accounts are carried, each one is a control over a certain section of the stores ledger.

12. Abstract of Stores Ledger

The stores ledger, as a means of securing proper accountability for stores, has now been described. The facts recorded therein should be examined from time to time to prove their correctness and to secure from them certain valuable information as a check against the

entries on the general books of account. The next two sections consider this matter more fully.

It is assumed that the form of stores ledger which has been shown is being used. Issues are against sales. When all the entries, including the balances at a given date, have been made in the stores ledger, an abstract should be prepared for each group of articles (or each article, according to the stock classification in use) showing:

1. Total received to date (total cost column of purchased division).
2. Total sold to date (value column of sold division).
3. Stock on hand (value column of balance division).

This work can be done easily on an adding machine.

The abstract should be proved against the general financial books. If the stores ledger entries and the abstract have been made correctly, the total received to date will agree with the purchases, as shown by the purchases accounts in the ledger, and the total sold to date will agree with the sales as shown on the ledger.

13. Gross Profit and Cost of Sales

The gross profit for each period can be obtained from the abstract by adding the stock on hand to the total sales to date, and deducting the total receipts to date.

The cost of sales for each period can be obtained by deducting the gross profit from the amount of sales to date.

14. Inventory at Both Cost and Selling Prices

For certain dealers listing stock at cost price only is not satisfactory. The fullest value of an inventory to them will not be realized unless both cost and selling price are listed. If only the cost value is used, the mark-up on the entire stock will not be known. If this mark-up is not watched, there may be a large discrepancy between the profit expected and the profit realized. After a year of heavy business, the actual resulting profit may be low; for this there may be two causes:

1. Low-profit goods may have been sold without enough turnovers, and high-profit goods remained in stock to tie up capital and profit.
2. Operation expenses may have been out of proportion to the volume of business done and the net profit.

Form 27 (page 140) gives a simple illustration of a stores ledger which provides for a record of mark-up. Its principle may be utilized with any form of stores ledger.

REVIEW QUESTIONS

1. You are engaged to devise and install a system of accounts for a concern producing electrical machinery but which purchases all its castings. Outline briefly a stores system for the concern.
2. Explain the exact relation between a stores ledger and a general ledger.
3. Outline the steps in stores control concerned with the receipt of goods. What forms may be used in connection therewith?
4. Rule a form for a stock ledger suitable for a department store.

CHAPTER XIV

SALES DEPARTMENT ORGANIZATION

1. Profitable Selling

Commodities are produced to satisfy human wants, either for home consumption or for sale to other persons. A hundred years ago most production was for home consumption. Today, the factory system, the division of labor, and the great economy of machine production has changed our whole economic life and people depend on others for goods to satisfy their daily needs. In other words, nearly all goods in these days are produced for sale.

People engage in business or manufacturing for profit. Profits depend upon three principles:

1. Careful buying
2. Low production cost
3. Good selling

Bad judgment or carelessness in any one of these particulars may be sufficient to eliminate all profits and if continued may lead to insolvency. The subject of buying has been discussed under purchases; that of production cost will be considered at length in Volume III of this set.

Upon the profitable disposal of the product purchased, in its original or altered form, depends the existence of every enterprise. In other words, selling is a most important factor in every business, for upon it

depends frequently not only the success but the survival of the undertaking.

Since selling is such an essential part of business—opening the necessary markets for the trader's merchandise and the manufacturer's product—a proper record of the transactions making up this selling (marketing) function is needed for intelligent management. Management is intelligent and efficient only when it:

1. Controls the values involved in the selling transactions.
2. Directs sales effort by the use of statistical information.

2. Functions of the Sales Department

The functions of the sales department are many, and not all of them need be considered in this volume. They may be enumerated roughly as follows:

1. Making the contract of sale with the purchaser, taking into consideration the elements of price, quantity, quality, credit, warranties, and time of delivery.
2. Handling the many documents involved in the control of sales.
3. Making sure that the goods to be sold are attractive and adapted to the markets accessible.
4. Supervision of salesmen, branches, agencies, and retail stores.
5. Supervision of advertising in its various forms, including dealer education.
6. Determining when goods may be returned and orders canceled.

3. Sales Department Organization

The organization of the sales department is determined primarily by the selling methods used. Before satisfactory selling methods can be devised, however, the class of customers it is desired to reach must be known. The same methods are not equally effective in reaching the jobber, the retailer, and the consumer. In fact, the methods used to sell to the three kinds of trade should ordinarily be quite different. Different methods are not required in all cases, but the various methods must all be borne in mind in order to make use of the one best adapted to the particular business.

4. The Retail Organization

There are three methods of selling to the retail trade:

1. Through the retail store
2. By mail
3. By salesmen calling upon consumers

The accounting system must take due cognizance of each of these methods. If the store is of considerable size and highly developed, no individual serves in more than one capacity. The owner or general manager, who as head of the business has supervision over the entire organization, usually delegates the immediate direction of the strictly selling activities of the business to other officials. The first of these is the merchandise manager, the real store manager, who is responsible not only for buying the stock but also for its profitable sale. Since the merchandise manager, however, cannot give his personal attention to the purchase and sale of the

entire stock, it is customary for him to divide the store into departments, basing the division upon the various kinds of goods carried, and to place each department in charge of a buyer directly responsible to the merchandise manager. This department head is the sales manager as well as the buyer for his department.

If the business is of sufficient size, the departments will themselves be subdivided into sections, each section in charge of an assistant buyer, whose duties are in general similar to those of the buyer. As the organization grows more complex, department heads will confine their work more to supervision and to determination of policies, leaving the actual buying and selling detail to the assistant buyers. The assistant buyers are directly in control of the salespeople through whom the consumer is reached. There may be, of course, a separate department, called, for example, a maintenance department, the head of which is responsible for the employment and the disciplining of salespeople. Yet as concerns the actual disposition of stock, salesmen are usually responsible for results directly to the buyers or assistant buyers.

In a business of sufficient size, a separate department would handle mail orders, the manager being directly responsible to the owner or general manager. Sometimes this department is placed under the supervision of the merchandise manager, although it is not customary, since the merchandise manager as a rule is not trained in mail-order methods.

Finally, the advertising department, which has the function of getting customers into the store, must cooperate with the merchandise manager and the buyers.

5. The Small Retail Store

What has been said of the division of labor in the large store will not apply to a small store. In the small store one person may perform all the duties which in a large store are done by many. This one person may be his own merchandise manager, buyer, and salesman; his own mail-order manager and advertising manager. Whether one person performs all these duties or whether the organization is complex, the differentiation of activities is always the same, and it is always possible with the growth of business to develop the organization by specialization along the lines of these activities.

6. The Jobbing Organization

The wholesale trade tends to develop its sales organization along lines similar in general to those of a retail organization. In a jobbing house, as in a retail store, it is possible for one individual to combine the functions of buying and selling. Later, as business develops, the work may be divided, one person buying and another person selling. Gradually the development reaches a point where it becomes necessary to divide the business into departments and to appoint department managers, a general sales manager, sometimes called the manager of departments, and a purchasing agent. In the jobbing business, departments are concerned with parts of the line of stock carried and not so much with accounting, shipping, etc.

The manager of departments will have several department managers under him, each in charge of one or more lines of goods carried. Each department manager buys the stock for his department, fixes prices, and

supervises the salesmen to the extent at least of seeing that each salesman gives his line proper consideration. Specialty salesmen may be employed to handle the line of one department exclusively. Usually, though, the entire line is sold only by general salesmen, and even if specialty salesmen are used their lines are handled by the general salesmen as well. Floor salesmen are sometimes used to assist retailers who prefer to select their stock personally.

On account of the special organization of a typical jobbing house, the general salesman is placed in a peculiar position. He is responsible directly and indirectly to the manager of departments, and to some extent to each department head. The manager should provide means so that these various departments do not conflict. Department managers ought to refer matters to the manager of departments before the salesmen are called in and instructed; in this way the manager of departments will be in a position to direct and control departmental competition and keep up the interest of the salesmen in all the lines.

7. The Mail-Order Business

A large mail-order business may require a mail-order manager, who is responsible directly to the manager of departments. In a mail-order business it is usually unwise to allow each department to attend to its own orders, because an order coming in almost always calls for more than one class of articles, and unless some one person is responsible for seeing the order filled completely and promptly, error and delay may result.

8. The Combination of the Retail and the Jobbing Organization

Sometimes a business is both wholesale and retail. In this case the sales organization is a combination of what is required separately for both a retail and a wholesale enterprise. If the retail feature of the combination is large enough, the two organizations can be entirely separated one from the other, each complete in itself. Two officials, the wholesale manager and the retail manager, may be in full charge of the organization of their respective departments, the owner or general manager being their superior. Although this complete demarcation is seldom seen, an organization doing both a wholesale and retail business must be completely organized for both of these activities. This is possible even though the same employees may perform duties in two departments.

The manufacturer has such a variety of selling methods at his option, that it is difficult to present a typical scheme. One point to be noted, however, is that in the manufacturing concern the selling organization is entirely separate from the purchasing department, whereas in the retail or wholesale firm this may not be true. The buying in a manufacturing concern is usually done under the supervision of the factory manager.

For example, consider an organization which makes use of all possible selling methods, one that is selling its product directly to anyone who desires to buy—jobber, retailer, or consumer.

The sales department is wholly responsible for the sales. The sales manager, who is the head of the selling department, receives his authority from the owner

or general manager. He, in turn, delegates his authority to five others:

1. The manager of the salesmen
2. The manager of the mail-order department
3. The manager of the retail stores
4. The manager of the branch houses
5. The manager of the agencies

By means of the organization of which these five persons are the heads, the manufactured product can be distributed in every way in which it is possible to have products marketed.

The salesmen are supervised by the manager of the salesmen. If the manufacturing concern is not using all methods of distribution, all salesmen may be under the direct control of the sales manager.

The mail-order department is supervised by the mail-order manager in the same way. In connection with mail orders, the same precaution should be exercised here as in the jobbing organization, i.e., one department must be responsible for seeing that the mail-orders are filled completely and promptly so that errors and delays will not result.

The manager of retail stores is responsible for the proper organization of each retail store conducted by the concern. Each of these stores is organized practically as an independent retail business would be (see § 4), except that the store manager does not go into the market to purchase his stock; he requisitions it from the factory as his needs require.

Each branch house may be organized in separate detail; it may have salesmen who are working under

the manager of the branch; it may itself supervise agencies and other branch houses; it may sell to agents; it may sell to retail stores; it may have a mail-order business. Usually, however, the relation of a branch to agencies, retail stores, and mail-order business is not of much importance; as a general thing these three activities are handled and supervised directly by the main office.

The trade with the agencies is under the supervision of the manager of agencies. The agent, however, is an independent dealer, and when he purchases an article from the house it is finally disposed of, much as if it had been sold to a stranger. His selling methods, therefore, are usually of no interest to the manufacturer.

9. The Advertising Department

In a manufacturing business the advertising department is closely connected with the selling division of the enterprise, yet not subordinate to it; the same may be said of the traffic department. The managers of these two departments usually are responsible only to the owner or general manager. In some organizations it is customary to make the sales manager the superior of the advertising and traffic managers, but this arrangement is not always advisable. The advertising department is responsible for an important part of the sales campaign, namely, arousing attention, and thus the advertising manager may well be considered as subordinate to the sales manager. Yet the advertising department is not concerned with clinching orders, nor is it part of the system of distribution, as are salesmen, the branch houses, etc. The traffic department cannot in

any way be considered as subordinate to the sales division; its duties begin after the sale has been secured, after the purpose of the sales division—clinching orders—has been fulfilled.

REVIEW QUESTIONS

1. What are the functions of a sales department?
2. How many methods are there of selling to the retail trade? Describe the working organization made necessary by each method.

CHAPTER XV

SALES ORDER ROUTINE

1. Importance of Careful Handling

No part of the work of the organization is more important, for economical operation, than the handling of the sales order after it is received. Sales orders may be grouped according to origin in three classes:

1. Those sent in by the salesmen.
2. Those sent in by customers.
3. Those brought in by customers.

The routine connected with all three groups, however, is very nearly identical.

The handling of a sales order begins with its receipt, or, we may assume, with the opening of the mail.

2. Recording the Sales Order on Uniform Blank

Regardless of source, the first thing to be done with a sales order is to have it recorded by the salesman upon a uniform blank, identical for all three classes mentioned above. The number of copies required, however, varies according to the class. If the order is sent by a salesman on the road, three copies should be made; he sends in the original to the office, gives the customer the duplicate, and keeps the triplicate himself as a matter of protection in case the original is lost in transit. For orders coming from the other two sources only two copies are needed.

3. Sales Register

As the sales orders are received in the office they should be entered upon a loose sheet record called a sales register. This record has only one purpose in the system — to keep track of all orders coming in so that an order may not be easily mislaid and forgotten. For its purpose, this register needs to be ruled to carry only a small amount of information:

Date order received
Name of customer
Amount

Each line of the register is numbered, and one line is used for each order. The number on the line is marked on the order to connect the register entry with the order itself.

4. The Credit Department

After an order has been entered in the sales register, it may next be passed along to secure the approval of the credit department. (If cash accompanies the order, this step is, of course, unnecessary.) The credit department examines the orders passing through and notes on each the decision given. This decision is based upon an up-to-the-minute knowledge of the condition of the various customers' accounts. In some cases an order is approved without qualification; in others the credit asked for is reduced; in others prompt payment is requested; in still other cases, perhaps, a C. O. D. mark is placed on the order. When this requirement has been carried out, the order passes from the credit department.

5. Order Interpretation

At this point it may be assumed that the order has passed from the credit department and has been sent to what may be called the order department. In this latter place, each order must be interpreted so that it will be unnecessary to refer fully to its contents in filling it. This interpretation is indicated on the order by certain markings, so that when the entry clerks receive it their duties will involve nothing but a mechanical operation.

6. Duplicate Copies of Order

After an order has been interpreted it may be handed to a billing machine clerk who makes out the requisite number of duplicate copies preliminary to its actual filling. The number of copies needed must of necessity vary with the character and organization of the business. In one instance two copies may be sufficient; in other and rarer cases, the number required may be nearer a dozen. Each set of copies is made by such a careful arrangement of the carbon paper between the sheets, that only the information necessary for each particular copy appears on it. The important point here is that all the copies required should be made at one writing, because by doing this:

1. Time and expense are saved: the total number of copies required is made in approximately the same time it takes to make out one, and orders are passed through the establishment rapidly.
2. Accuracy is secured: there is no chance of difference between copies.

If, for example, ten copies of the sales order were made out, they would be used as follows:

1. Invoice. This is mailed to the customer, with the transportation company's receipt.

2. Acknowledgment of order. This is sent to the customer as a check on the accuracy of the interpretation of the order and to permit correction if necessary.

3. Posting ticket. This is passed to the accounting department and postings are made to the customers ledger and the sales summary from this copy.

4. Order department copy. This is kept in the office as a permanent record.

5. Stock requisition. This is sent to the stockroom, warehouse, or factory as an order to get the shipment ready. If the material is located in a number of departments, special subrequisitions may be made out for each one. The entire material is reassembled in the shipping department by reference to the complete copy on file there.

6, 7, 8. Package labels and receipts. Three of these are sent to the shipping clerk. The first copy is to be pasted on the package. The other two are to be signed by transportation companies as receipts; one of these is sent with the invoice to the customer; the other is kept until the shipment has reached its destination.

9, 10. Shipping tickets. Two copies of a complete list of goods to be shipped are sent to the shipping clerk as a guide in making up the shipment. This list controls the stock requisition mentioned above. One of the tickets, signed by the shipping clerk, is enclosed with the shipment; the other is returned to the office.

When these copies have been made out, they are first checked against the original order to be sure that all items are correct, and the copies are then distributed. It is unnecessary to indicate the routine connected with this distribution. The goods are gathered, checked against the stock order, and sent to the shipping department. There the goods coming from the warehouse are checked against the shipping ticket, packed, and made ready for shipment. A double check may be required in the shipping department—one against the shipping ticket as the goods come in—the other against the same ticket or the other copy before the goods are packed after they have all been assembled. One copy is enclosed with shipment. Shipments must be followed up promptly to see that they go out on time, and partial shipments must be handled carefully. For both purposes a tickler system is useful.

7. Accounting Department Routine

The order has now really reached the accounting department, although frequently the clerk who made out the ten copies is in the accounting department. The forms in which the record of sale reaches this department are as follows:

Invoice
Posting ticket
Office copy
Shipping ticket
Package receipt

The billing clerk inserts the amounts upon the invoice and the posting ticket. The invoice is then sent the

customer with the shipping receipt. The posting ticket goes to the bookkeeper. The billing clerk may keep a record of his billings so that at the end of each day the total may be given the head bookkeeper for checking purposes.

The posting ticket becomes the basis for the bookkeeper's entries in the books of account. It may be that these tickets by themselves, sorted in numerical order and placed in loose-leaf binders, form the sales book. It may be that they are entered upon a register, the totals of which when posted to the sales accounts in the general ledger give a record of sales and also a figure for the Accounts Receivable controlling account. Some sort of distribution of sales is made, at any rate. From these tickets the various amounts are posted to the customers' accounts on the customers ledger, or the tickets themselves may be sorted according to customers and considered as the make-up of each customer's account. For our purpose the procedure is immaterial, so long as a proper charge and credit to certain of the accounts, accompanied by efficiency and a reasonable amount of protection, is secured.

REVIEW QUESTIONS

1. What is the purpose of a sales register? Rule one.
2. If six copies of a sales order are made out, what disposition should be made of each one?
3. Describe the accounting department routine connected with the proper handling of a sales order.

CHAPTER XVI

SALES RECORDS

1. Recording Sales

Thus far we have traced in a general way the course of a purchase order through an establishment. We have considered the purchase recording system necessary to get our purchase upon the accounting records; and finally we have discussed the theoretical development of purchase records, so that when facing a certain problem we may know what possibilities are at our disposal. We have also traced the course of a sales order from the moment it is received to the moment it passes to the bookkeeper for entry in the books of account. It is now necessary to consider the recording of sales in the books of account. The documentary evidence is the starting point.

2. Necessity for Sales Records

The operation of selling for cash or promise of later payment transfers merchandise or service to others, called customers. Each sale, whether for cash or credit, should be recorded. If for cash, the record establishes accountability—custodianship—for the cash received. If on credit, the record establishes the amount with which the debtor is to be charged. The proper record of sales transactions determines what amount shall be credited to Sales account, and assists in the accurate ascertainment of income.

In ordinary merchandising it is not usual to attempt to keep a complete record of the value of goods purchased and sold. A record is made of the cost of the goods purchased, and another record, as the goods are sold, of the sales price received, without noting the relation between the cost of goods sold and the selling price. Before a knowledge of the profit can be secured, it is necessary to take a physical inventory, and this is done usually once a year, at a time when it is desired to ascertain the net profits of the business. This method is justified on the ground that the keeping of a complete stock record all the year would cost more than any benefits that could be derived therefrom.

Some trading concerns, however, keep a complete stock record at all times, especially where the articles traded in are of little bulk and extremely valuable, and a danger from loss by theft exists. By this plan the cost of sales and the gross profit may be determined readily at any time.

In sales for cash a record is made of each sale, and the daily total is checked against the actual cash receipts. In sales on credit the amount owed by each customer may be easily ascertained from the records, so that settlements may be made quickly and collections followed closely.

3. Records of Sales on Credit

When business is done on other than a cash basis, provision must be made for recording against customers the items involved in each sale—date, character, and price. As indicated previously, such provision varies, running from the duplicate sales slip filed by the small

retailer for each customer, to the elaborate methods used in large organizations. These various means, together with those used in sending periodical statements to customers, usually once a month, indicate what is needed to record the values connected with sales.

4. The Three-Column Journal

In discussing the three-column journal in connection with purchases (Chapter XI), it was stated that at all times information concerning the amount owed to any creditor should be available for immediate use in connection with the settlement of the account. To make this possible it was found that entries to creditors' accounts should be posted immediately, but that entries to the Purchases account could just as well be posted monthly in one total. With this idea as a basis a special column was introduced in the simple journal, in which only purchases should be recorded during any accounting period, and also a method of posting was shown by means of which nearly half the labor of posting was eliminated.

Month of August, 1919

Explanation	L.F.	General		Sales Cr.
		Dr.	Cr.	
.....	.....	.....	.....	.....
.....	.....	.....	.....	.....
.....	.....	.....	.....	.....
.....	.....	.....	.....	.....
.....	.....	.....	.....	.....
.....	.....	.....	.....	.....

Form 28. Three-Column Journal, with Sales Column

If the development of the purchase record has these advantages, it seems reasonable to suppose that similar advantages should be secured somehow from the developed sales records.

Since the sales transactions, from the standpoint of record, involve tendencies just the opposite from those disclosed in purchase transactions, it is obvious that the development of the records for sales should be fundamentally the same, except that in this case the credit side of the journal will be developed instead of the debit side.

Bearing in mind what has been said, a three-column journal may be constructed to answer the purpose, as given in Form 28. It seems unnecessary to illustrate the use of this record.

5. The Sales Book

The simple three-column journal will prove inadequate for sales as well as for purchases, except in an establishment of the smallest kind. If used, the necessity of relieving the journal of its many entries would soon become so pronounced that a change would be imperative.

In the case of purchases the first step in this direction was evidently to take this third column out of the journal and develop it into a separate record. This idea was followed out in the development of the purchase book, stripping the journal of all purchase transactions, and making a new journal for them—a separate book of original entry for purchases.

Sales can now be considered with this idea in mind, placing them in a simple separate record, shown in Form

29. For a small concern such a record may be useful. Its advantages are:

1. It relieves the general journal.
2. It facilitates posting.
3. It facilitates recording merchandise sales.
4. It reveals clearly the volume of sales.

SALES BOOK
Month of August, 1919

	-1-		
29	Carey & Son		
	50 bbl. Sugar @ $20	$1,000.00	
	15 bu. Potatoes @ $2.00	30.00	
			$1,030.00
	-2-		
31	Belmont & Jones		
	10 sacks Flour @ $2.50	$25.00	
	5 cases Grapefruit @ $5.00	25.00	
			50.00
	Merchandise Sales, Cr.		$1,080.00

Form 29. Sales Book—Simple Form

6. The Impression Book

This and the following two sections describe three different methods of making the original record of sales in a business of any magnitude:

1. The impression book
2. The bound book of invoices
2. Duplicate loose-leaf invoices

Under the first method, which is not now in general use, an impression copy-book was used. The book was wide enough to provide space for copying in it the in-

voice made out for the customer and to have two or more columns in which the sales were distributed into classes. The customer's invoice, which was originally printed or written in copying ink, was copied by the use of a letter press into this book. The different classes of goods shown on the invoice were then extended by hand into the columns.

Each column was added monthly to show the total for that class of sales. This total was then posted to the credit of the proper sales account. The total of each invoice was debited to the customer's account. This posting was done from the impression book without the use of posting tickets such as described in the preceding chapter.

As outlined here, this method required a sales account for each class of goods. Return sales were carried in a similar record, the posting from this being opposite to that for the sales book. The impression book was unsatisfactory because:

1. Much labor was required in copying each invoice.
2. The copy was likely to be illegible.
3. The number of distribution columns was limited.

7. Bound Book of Invoices

Another method of recording sales is built around a bound book of invoices. Each page of the record contains two or more invoices perforated so that they can be torn out and sent to a customer. Under each page is a blank sheet permanently bound in the book; by means of carbon paper a copy of each invoice is made on the blank sheet, which then serves as the post-

ing medium for the debit to the customer's account. Two or more columns for the distribution of sales are placed to the right of the space reserved for the invoices. The book is handled in the same manner as the impression book. It is unsatisfactory for much the same reasons:

1. Invoices must be made with pencil in order to secure a good carbon copy, yet
2. An illegible copy is always possible.
3. The distribution is limited.
4. Much labor is required in copying each invoice.

8. Duplicate Loose-Leaf Invoices

In this method an original and a duplicate invoice are used; the invoices are consecutively numbered, and the duplicates punched for a loose-leaf binder. Since these invoices are loose they can be easily written on the typewriter, insuring that both original and duplicate shall be legible. The original copy is sent to the customer and constitutes the bill; the duplicate copy is retained.

The duplicate copy may be entered in a sales book provided with columns in which to record the desired general information concerning each invoice, followed by columns, as many as necessary, in which the distribution is made in accordance with the different classes of sales. From this sales book, each customer is debited for the total amount of each of his invoices. At the end of the month the distributions in the various columns are added and posted to the credit of the respective sales accounts. The monthly postings of the distribution columns may be made directly from the sales record, or a

summary journal entry may be prepared and the postings made from that.

The posting to the debit of the customer may be made from the duplicate invoice directly. If so, the distribution usually would not be made on a sales book, but upon what is called a recapitulation sheet (see § 13), which is filed in the same binder with the invoice.

9. The Billing Machine

The billing machine is a special form of typewriter, which has, in addition to the writing keys, a contrivance for adding and subtracting amounts that have been written. It may be a flat-bed machine or one in the form of a regular typewriter. The former makes the use of cards possible.

With this machine ten or more copies of the sales order may be made, the extensions calculated, and the total extended. When figures which do not enter into the addition are written, a stop-key prevents them from being taken up. Because of the many duplicates which may be made at one writing, almost any assortment of copies may be made. The original at least is sent the customer. The posting ticket is filed in a post binder from which postings can be made to the ledger; in this case the binder becomes a sales register. Other duplicates may be used as desired. (See Chapter XV.) It is possible also, when detail amounts are desired on the ledger, to have the amounts written thereon at the same time the copies are being made out, by placing the loose-leaf ledger page in the machine before writing. In this way, the invoice is prepared, the sales register is written, and the ledger is posted almost at one operation.

10. The Billing Machine in a Department Store

The billing machine is especially useful in department store work where a great number of charge items are recorded. The bill-head is made in duplicate on one sheet of paper, folded so that the duplicate is exactly under the original. Customers are divided into groups or classes, the division being made alphabetically. Charge sales tickets are sorted in the auditing department according to the classes, and each operator for a class secures all the tickets for the day for that class. The tickets are arranged alphabetically. On the first of the month bill-heads are made out with the names and addresses of customers who purchased goods on that day, and subsequently, as other customers buy goods, bill-heads are made out for them. Thus no more than one bill-head is made out for each customer each month, sales being entered from day to day.

At the same time that the purchases are being entered on the individual bill-heads the machine records all the totals so that at the end of the day the grand total may be obtained. If this grand total agrees with the figures furnished by the auditing department, the day's work is proved, except that wrong persons may have been charged. The purchases are entered in black ink. The credit tickets for returned goods are entered in red ink, and their total is also compared with a total furnished by the auditing department. This procedure is followed each day during the month.

At the end of the month each bill is added and the black and red ink totals are inserted. The totals of all debits and of all credits are run off on an adding machine. Then these two totals are balanced against the

auditing department's totals. If errors are found they are corrected. The bookkeeper then takes the bills, makes the necessary cash entries, posts the total debit and credit of each customer to the proper account from the duplicate, and sends the original itemized bill to the customer.

11. Sales Book of a Wholesale Concern

Suppose a wholesale dry goods company conducting three distinct departments, for which it wishes to keep the trading results separately, desires a system by means of which to record its sales. The company does an extensive business in all three lines, having at least 10,000 customers. Three customers ledgers are kept, over which it is desired to provide for controlling accounts. The problem here is to construct a sales book to meet the above conditions. In the form given (Form 30) sales may be distributed on separate analysis sheets before entry on the sales book.

SALES BOOK

Date	Explanation	Terms	Amount	L.F.	Accounts Receivable			Departmental Sales		
					A-H	I-O	P-Z	1	2	3

Form 30. Sales Book showing Rulings for Controlling Accounts and Departmental Distribution

12. Alternate Sales System for a Small Concern

A convenient system of recording sales, for a small concern, uses specially ruled blanks (Form 31)

CARSON TRADING COMPANY

Terms_____ Name_____ Order No.____ L. F._____
Rating_____ Address_____ Date to Ship____
Date Rec'd____ Salesman_____ Shipped By_____
Date Shipped____

Shipper's Check	Quantities	Size or Kind	Explanatory Detail	Price	Total	Article Distribution		
						1	2	3

Form 31. Sales Order Blank

made up in duplicate or triplicate. The total order is posted direct to the ledger from the order blank. This system provides a check on the salesmen, since every numbered ticket must be accounted for. It also gives a check on the shipping department. The duplicate would be sent to the shipping room and retained there until the order is filled. When the order is filled, the shipping clerk enters on the duplicate the number of packages in the order, and a notation as to when and how shipped, and then returns it to the office. The original is held by the bookkeeper until the order is complete. Then he sends it to the purchaser as the bill, and makes his entries from the duplicate, which is then filed.

13. Sales Recapitulation

It is necessary, regardless of the manner in which sales have been recorded, to find out the total of sales

of each kind so that the proper credits may be made to the sales accounts. The customers are charged for goods received, and if one Sales account is carried, that account is credited. If the business is subdivided into departments, the total sales of each department must be ascertained separately so that the departmental sales accounts will be credited properly. A monthly recapitulation sheet with special columns for as many departments or subdivisions as may be necessary is used for this purpose. The two following forms illustrate the method. Form 32 provides for a recapitulation by departments, and Form 33 shows its use when ledgers are kept by territories.

14. A Mechanical Account System

Many small stores have found a mechanical account system very satisfactory. This system requires the use of a desklike cabinet, with sloping top, which is covered with glass to form a writing surface. Under this glass is an alphabetical index of customers' names with a number assigned to each customer. At the rear of the desk is an upright back, which contains stiff metal leaves, all indexed by numbers and hinged at the bottom so that they may be dropped forward easily and lie flat on the desk. On the front and back of each leaf are ten clips or holders, so that when a leaf is dropped forward twenty clips are exposed to view. Under each clip, which is marked with the customer's number as given in the cabinet, are filed the charge and credit slips of that customer.

The charges are written on duplicate sales slips, every original having its reverse side carbonized so that

SALES RECAPITULATION SHEET

Date	Invoice No.	Total	Distribution					
			Ready-To-Wear Dept.	Corsets Dept.	Notions Dept.	Dress Goods Dept.	Underwear & Hosiery Dept.	Domestic Dept.

Form 32. Sales Recapitulation Sheet—by Departments

SALES RECAPITULATION SHEET

			Departments						Ledgers			
			1	2	3	4	5	6	City	Wholesale	Eastern	Western

Form 33. Sales Recapitulation Sheet—by Departments and Territories

a carbon copy is automatically made. When the clerk makes out a slip he enters first the balance from the last previous slip, so that the last figure on each slip is the net amount owed by the customer. One copy of the slip is retained to be placed under the clip in the cabinet, and the other given the customer as his receipt. Each customer is given a slip-holder to use for filing his slips.

15. Returned Sales

Returned sales are of importance. The returns may be either goods that can be resold or goods that have lost all or a part of their sales value. When returned sales occur frequently, and when a loss in sales value takes place in connection with the return, considerable attention must be given them, so that the loss may be kept as small as possible. In a dry goods store, for example, much help in the reduction of returns is secured by placing patented tickets on all articles possible so that they cannot be replaced by the customer, once they are removed.

Goods are returned either because of rejection or because of needed repairs. Repairs must not be charged as an additional cost, but as an expense. The rejected goods must go back into stock at the same price as similar items. In most cases, any losses due to these returns are to be charged against the sales department, and the sales department must decide accordingly what is to be done with the returned goods. This matter may be handled in the following way.

Before returned goods are placed in stock, a "returned goods memorandum" (Form 34) should be made in triplicate. One copy should be kept by the

RETURNED GOODS TO US
MEMORANDUM

The following Goods have been received, returned from _____

DATE SHIPPED	DATE RETURNED	SHIPPED ON ORDER No.	EXPLANATORY DETAIL	TOTAL COST	RETURN VALUE	LOSS

Debit _____ Receiving Clerk _____

Credit _____

Address of Concern credited _____

Loss charged to _____

Signed _____

Form 34. Returned Goods Memorandum

DATE	LOT No.	DESCRIPTION	PRICE	L. F	EXTENSIONS	TOTAL DR. CUSTOMERS	CR. GENERAL SALES	CONSIGNMENT SALES		CONSIGNOR
								CR	COST	

Form 35. Consignment and General Sales Book

receiving clerk, one copy sent to the stores department, and the third sent to the sales department. The sales department's copy, after being approved by the manager, is sent to the accounting department for entry.

16. Duplicate Receipts for Cash Sales

A duplicate receipt is valuable in the handling of cash sales. The original is given the customer and the duplicate is used for the accounting record. These duplicates may carry classifications in harmony with the regular sales classifications, and may be sorted into these classifications each day before the bookkeeping entries are made for them, but must be kept distinct from charge sales.

17. The Cash Register

The cash register is discussed in Chapter XVIII, § 9, in its relation to cash. It is necessary to mention it also in connection with sales, since it is used to safeguard the cash receipts and to assist in securing proper accounting entries. Some cash registers provide for the printing of a ticket that may be given the purchaser as a receipt. Other cash registers provide to a slight degree for the grouping of sales into a few classes, and for the classifying also of salesmen. Whenever a full receipt is unnecessary, and when classifications are not too many, the cash register may be used to advantage as part of the accounting system.

18. Sales on Consignment

When one person sends goods to another for sale, the transaction is called a shipment or a consignment

sale. The receiver, the consignee, usually places no value on his books for the goods received. The sender, the consignor, charges the consignee, in a Consignment account, with the cost of the goods sent. The transaction is not a sale, and therefore should not be debited to an account receivable, nor should it be credited to the regular sales account. Until sold, the goods still belong to the consignor. If such goods are credited on the consignor's books to the regular sales account at selling price, a profit is shown for him which has as yet not been realized. The entry, when the goods are sent, should be a debit to a Consignment account at cost, and a credit to Consignment Sales. Both are in the nature of memorandum accounts, having no effect either on the profits or financial condition of the concern. When the books are closed, Consignment Sales account is not credited to Profit and Loss, and the Consignment account is not an account receivable. The Consignment account represents goods actually out on consignment, and should appear in the inventory of merchandise under a special heading. Neither account should appear on the balance sheet.

Instead of crediting Consignment Sales with the cost of the goods shipped, the credit can properly be made to the Merchandise account (if one is maintained) or to the Purchases account. When the consignee sends in a report of his custodianship (account sales), which shows the net proceeds secured for the consignment, the consignor makes entries to record the sale, depending upon the way in which the original entry was made:

1. If the Merchandise account was originally credited with cost, the proceeds should be credited to the

Consignment account. The balance of the Consignment account then represents the profit or loss on the consignment. It may accordingly be transferred to one of these accounts:

(a) Merchandise account, or
(b) Special Profit and Loss account.

2. If the Purchases account was originally credited:

If no remittance has been made by the consignee, the cost should be charged back to Purchases and the Consignment account should be credited. Purchases will then not be understated. The sale should be treated regularly; it should be passed through the sales book and the consignee should be debited on the customers ledger or if a check has been received for the amount, it should be credited at once to Sales through the cash book.

3. If the Consignment Sales account was originally credited, the cost should be charged against Consignment Sales and the Consignment account should be credited. This closes the memorandum accounts. Then:

(a) If no remittance has been received from the consignee, the transaction should be passed through the sales book and the consignee should be charged in the customers ledger.
(b) If a check has been received for the amount, the transaction should be handled as a cash sale.

19. Sales Book for Consignee

It is common practice for a concern to sell goods on consignment in addition to selling its own goods. In this event, the consignee's sales book ought to show the distinction between the two classes of sales and provide columns for the necessary detail for each class. The sales book shown in Form 35 (page 176) is suggested as one meeting these requirements. This form is used by a wholesale concern which transacts both a commission and a general business, selling its own and consigned goods at times to the same customers, and in such case billing both on the same invoice. The "Extension" column gives the total of the various items billed, the total of each bill being carried into the "Total Dr. Customers" column. The column headed "Cost" is used when a cost price is set by the consignor.

20. Sales on Approval

Sales on approval are similar to consignments. They are common in department stores, being made to persons who are not able to visit the store themselves, or who are not certain that the articles ordered will answer their purpose. The goods are usually charged temporarily to a memorandum account, and after a reasonable length of time has passed, the charge is transferred from that account to the account of the customer who has the goods on approval. Sales on approval are not regular sales and should not be handled as such. If they are placed in the regular sales account, the profit and loss will include a profit on them which has not been earned. Moreover, the accounts receivable will be unduly inflated with items which are not assets.

Sometimes approval sales are passed through the regular books. In this event Approval Sales would be credited and Goods on Approval debited. Since these two accounts offset each other, they may be omitted from the balance sheet. Goods on approval are part of the inventory (at cost), for they belong to the company. Their value would be set out under a special heading.

21. C. O. D. Sales

The handling of C. O. D. sales may be illustrated in connection with the business of a department store. The original sales slip should be pasted on a stout card upon the top of which is printed in large red letters "C. O. D." By this means the driver is warned against delivering such packages without making collections; furthermore, he has at hand information concerning the charge should a dispute arise.

C. O. D. packages should not be considered as regular sales. A correct record of all C. O. D. packages should be kept as they are turned over to the delivery department, and each driver should be charged with the amount which he must collect. This is done by means of a route sheet, on which are recorded the number of the package and the amount to be collected. As the driver makes a delivery, and collects the amount of the charge, he removes the cash voucher from the tag attached to the package, and returns this voucher with the cash at the end of the run. The cash, plus the cash vouchers, and the packages undelivered or refused, form the basis for giving the driver credit on the route sheet (Form 36). The cash and the goods returned are turned over to the proper departments. The amount

Sheet No. _____
Route No. _____
Driver _____

ROUTE SHEET
C. O. D.

Line No.	Name	No. Packages	Hold-Overs			Sales Today	Credit		
			Line No.	Route Sheet No.	Amount		Cash	Stock Returns	Hold-Overs

Form 36. C. O. D. Route Sheet

ROUTE LEDGER
Route No. _____

Date	Driver	Detail	No. Route Sheet	Debit	Date	Detail	No. Route Sheet	Credit	
								Cash	Stock Returns

Form 37. C. O. D. Route Ledger

of the cash is entered on the cash book as a credit to the departments concerned, and the merchandise is returned to stock. A route ledger (Form 37) may be used in connection with the route sheet.

22. Containers

Containers sometimes present a small but extremely difficult problem. There is much difference of opinion as to how they should be treated in the accounts. The correct principle is to keep the account of returnable containers separate from merchandise. In this manner, not only may the exact amount of accounts receivable be determined, but assistance is secured in arriving at the correct amounts of commissions due salesmen. Salesmen should not be paid a commission on what is considered to be a necessary business expense.

One method of handling is to charge containers at once to the customer, giving him the privilege of returning them, and to credit the Sales account. This method implies that a sale has taken place, although of course such is not the case. It is better to credit, not the Sales account, but some special account.

It is preferable to open an account with Containers and charge this account at cost with all purchases of containers. When containers are sent to a customer, the Containers account is credited with the amount the customer is charged. The sales book should contain a column for containers, as shown in Form 38, so that only one posting a month will be necessary. When containers are returned, the Containers account is charged with the amount credited to the customer. If containers are returned at the time a cash remittance is re-

SALES BOOK

DATE	EXPLANATORY DETAIL	CONTAINERS	MDSE.	TOTAL
.....	.....	.....	.....	.....
.....	.....	.....	.....	.....
.....	.....	.....	.....	.....
.....	.....	.....	.....	.....

Form 38. Sales Book, with Containers Column

SALES LEDGER

DATE	DEBITS	CONTAINERS	MDSE.	TOTAL	TOTAL	MDSE.	CONTAINERS	CREDITS	DATE
.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....	.....	.....	.....	.....

Form 39. Sales Ledger, with Containers Column

ceived, a special column may be inserted in the cash book in which the credit for containers returned will be placed on the same line as the entry for the cash remittance. If containers are not returned at the time a cash remittance is received, a special record for "Returned Containers" may be kept. A sales ledger to use with the sales book in Form 38 is shown in Form 39.

23. Instalment Sales

Another difficult problem is presented at times by instalment sales. The following form (Form 40) will facilitate their handling and their collection. In connection with its use, a tickler file is suggested, the cards being filed according to the dates when payments are

RECORD OF INSTALMENT SALES

_____ COMPANY

NAME _____

ADDRESS _____

TERMS: _____

ARTICLES _____ NO. _____ PRICE _____

INSTALMENTS DUE				PAYMENTS				REMARKS
No.	Date	Amount	Interest	No.	Date	Amount	Interest	
1								
2								
3								
4								
17								
18								
19								
20								

Form 40. Record of Instalment Sales

due. When the sale takes place the following entry is made in the books of account:

(1)	Customer	$.....	
	To Instalment Sales.....		$.....
	For amount of sale.		

When an instalment is paid:

(1)	Cash	$.....	
	To Customer.....		$.....
	To record receipt of cash.		
(2)	Instalment Sales.....	$.....	
	To Sales.....		$.....
	To record transfer from Instalment Sales account to Sales account so that present period's actual sales may be determined.		

If the cost of the article sold is known, the profit can, of course, be easily determined by subtracting the cost from the selling price. In instalment selling, however, care must be exercised to credit Profit and Loss with only the proportion of the total profit to be realized which has actually been earned. That proportion is ascertained by determining first the proportion of the total selling price which has actually been received from the customer. Assuming that the customer has paid 3/5 of the selling price, it may be assumed that 3/5 of the profit has been earned. That proportion of the total profit may then be credited to Profit and Loss at the close of the fiscal period. The entry to effect this should close out the Sales account as follows:

1. That part of the balance which represents profit (calculated as outlined above) should be credited to Profit and Loss.

2. The remainder of the balance necessarily represents the cost of goods sold and accordingly should be credited to Purchases account.

The form of the entry should be the following:

Sales	$.....	
To Profit and Loss		$ .....
" Purchases		.....
To credit Profit and Loss with the profit earned on instalment sales.		

24. Coupon Books

Coupon books are used at times by railroads, street cars, restaurants, and in general business. The principle here is to sell a book of redeemable coupons worth, say, $5 for $4.50. When used properly such a plan may be considered a convenience to the user and a source of profit to the seller. If the buyer saves 5 or 10% by using coupons, the seller secures more business.

A mercantile concern may be considered to illustrate the handling of coupon books. When coupons are sold no credit should be made to the Sales account since no merchandise has been transferred. On the other hand, the accounts ought to show the existing liability for coupons unredeemed. An account may be opened with Coupons to which their amount is credited:

Cash (or Notes Receivable, if a note was given)	$.....	
To Coupons		$.....
For		

When coupons are redeemed for merchandise:

Coupons	$.....	
To Sales		$.....
For		

The books will then show correctly the profits at the close of business, and the credit balance in the Coupon account will represent the liability in favor of customers.

REVIEW QUESTIONS

1. Construct a form of sales record for a concern selling three general classes of merchandise, when customers' accounts are divided into three groups with a controlling account over each one.
2. Is a credit balance found in an account upon the customers ledger to be treated as a deduction from the total accounts receivable? How would you handle it?
3. Describe four methods of recording sales on credit.
4. Of what use is a billing machine?
5. How should cash sales be handled?
6. How should consignment sales be recorded on consignee's records?
7. Describe a method of handling approval and C. O. D. sales.
8. How should containers be taken care of? Construct a sales book and sales ledger providing for their inclusion.
9. Rule an instalment sales record.
10. A general merchandise store contains six departments. A farmer brings in a case of eggs to the grocery department, for which he receives an order which may either be cashed by the cashier at face value, or be redeemed, at the farmer's pleasure, wholly or in part, in merchandise in any department. How would you take care of this situation in the accounting system of the store?

CHAPTER XVII

GENERAL CASH RECORDS*

1. The Separate Cash Record

The cash book is the most important of the books developed from the simple journal. Its relations to the journal as kept at present and to the records of sales and purchases need careful consideration.

Sales are the life stream of a business enterprise. A sale takes place when goods are transferred to a customer and either cash is received in payment or there is the promise of payment later. Therefore, the receipt of cash is closely associated with sales. On the other hand, cash is closely associated with purchases, for which cash eventually must be paid, and with expenses which are incurred in both purchasing and selling.

Even though one often finds, especially in small businesses, that purchases and sales are not as closely supervised as they should be, careful watch is nearly always given to the receipts and disbursements of cash. This state of affairs is of course inconsistent, in view of the fact that goods and cash are simply alternative forms of the assets of the same business. It will be found, however, that problems concerned with cash turn more often upon improving existing methods of cash control and accountability than upon installing method of general control and accountability where none at present exists.

*See chapters in Volume I on cash.

The term cash, from the accounting viewpoint, comprises money, checks, coupons, and all other items which a bank accepts for deposit in the ordinary course of business. Cash transactions include the receipt and payment of cash, plus discounts allowed or received. Cash is the most liquid of assets. When misappropriated, it cannot be identified and traced like an article of merchandise; therefore special care is necessary for its protection.

Through all the many forms of cash books in use runs one principle of construction, namely: a cash book should record cash receipts and payments and show the resulting balance. It is a record in which only cash transactions are recorded. Regardless of the name the book goes by, its function is as indicated. Since it is practically a journal kept solely for cash entries, it has all the characteristic features of a journal; but unlike the simple journal, and like both purchase and sales books, it records only one part of the transactions of the business.

2. Reason for Distinct Records

An examination of the journal of a business in which only a journal and ledger are used would disclose ordinarily that the greater number of entries relate to cash transactions, and that the posting connected with these entries is greater than the posting connected with any or all other transactions.

Much of the monotonous and expensive labor of posting these frequently recurring cash transactions may be eliminated by using a distinct record for them similar in principle to the distinct record for purchases

and sales. It is much better than passing them through the journal with the others.

Again, in every business, payments are continually being made for purchases, pay-rolls, credits, and so on. To pay out cash intelligently it is essential to know how much is on hand; otherwise, an overdraft may occur and cause embarrassment. Since it is necessary to know the cash balance at all times, the work of posting cash items from the simple journal must be done daily, and since these items are numerous it is difficult to keep the cash account up to date.

Finally, even in a business of moderate size, cash transactions may be so numerous that one person can well be employed continuously in recording them. It is necessary, therefore, to provide a record for their entry on which one person can work without interference from those who have to record other types of transactions. All these reasons have contributed to the development of separate records of cash transactions.

3. Development of Cash Records

In proceeding from the simple to the more complicated forms of cash records, cash transactions are handled in three ways:

1. By means of the simple journal, in which cash transactions are handled along with all others.
2. By means of the simple cash book or the columnar cash book, in which cash transactions are handled separately as a group.
3. By making a distinction in the records and having separate books for cash receipts and

cash payments, by which means cash receipts are handled separately from cash payments.

4. The Essentials of a Cash System

Experience has conclusively demonstrated that the three essentials of any effective system of handling cash are as follows:

1. The deposit of all cash receipts. If all receipts are deposited, the bank account shows all the cash that has come in. In this way it is an easy matter, first, to ascertain how much cash must be accounted for, and second, to have one employee check up another who is handling the cash. This would be difficult if not impossible if cash were paid out as it came in, without passing it through the bank.

2. The payment of cash by check whenever possible. All payments should be made by check and receipts should be required. Except in the case of some form of voucher check, to be explained later, a canceled check should never be accepted as a receipt.

3. Handling petty cash payments on the imprest (fund) basis. Some petty payments must, in every business, be made in cash. For this purpose, a fund is set aside which is estimated to last a certain length of time, which may be a day, a week, or a month. This sum is charged to the cashier upon the ledger. At the end of the period, the cashier makes up a statement and attaches to it the vouchers and receipts for his petty cash payments. A check is drawn for the amount of the payments, the entry is passed through the cash book, and the various expense or other accounts are charged. The cash received for the vouchers and receipts turned over

brings the fund again to its original amount. The ledger account with the cashier stands untouched until the fund is increased, diminished, or turned back into general cash. Then it is increased, diminished, or closed out and Cash is credited or debited accordingly.

5. The Simple Cash Book

The simple cash book, which answers all the requirements of a small business, has one page devoted to receipts and one page to payments. The ruling of each page is the same as that of the simple journal, except that customarily it has but one money column instead of two.

Cash receipts are entered on the debit or left-hand side of the cash book, as shown in Form 41. The name

Dr.		CASH BOOK	
DATE	L.F.	EXPLANATORY DETAIL	AMOUNT
1919 Jan. 7	18	Arthur Lindsey paid on account	$125.00

Form 41. Simple Cash Book (left side)

of the account that is to be credited is shown with date and explanation. From this entry the posting is made to the credit of the proper ledger account. The debit to Cash is suspended temporarily until the record is closed. Then the total receipts are added and posted as one amount to the debit of the ledger account of Cash.

Payments are entered on the credit side—the right-hand side—and the procedure is the reverse of that explained for debits to Cash. If the balance of cash on hand at the beginning of a fiscal period is entered as

a debit, and all receipts are debited and all payments credited, the balance of the cash book at any time shows, if a debit, the amount of cash on hand, and, if a credit, the amount of the overdraft.

6. The Cash Book Not a Ledger Account

In the discussion presented above, the cash book has been considered entirely as a journal development, i.e., a section of the journal kept under separate covers. Some persons, however, assume that the cash book should be looked upon as a ledger account or a combination of journal and ledger features. Going to a source other than the ledger for figures necessary to complete a trial balance is really not justified under any condition in modern American bookkeeping practice.

A ledger is a book of final entry, containing a complete record in summary form of the condition and operations of a business. The ledger should at all times be in equilibrium, a trial balance being drawn therefrom periodically to ascertain whether or not the total debits equal the total credits. If the cash book is considered a ledger account and no Cash account is carried in the ledger, the ledger will not be self-balancing. In a trial balance drawn from such a ledger the amount of cash on hand would have to be entered from the cash book. This would be inconvenient in practice as well as incorrect in theory. However elaborate the development of the cash book may be, a Cash account should invariably be maintained in the ledger.

The principle shown in the simple diagram (Form 57, page 231) is developed simply and logically by considering all books of original entry as journal develop-

ments. A Cash account, therefore, is carried on the ledger, to which is debited the beginning balance and the total receipts, and to which the total payments are credited. The balance agrees with the balance as shown on the cash book itself.

7. Cash Book Entries

On the left-hand page of a cash book every item is a credit to some account without any apparent debit being shown; and on the right-hand page every item is a debit to some account without any apparent credit being displayed. It might seem, therefore, that cash book entries were an exception to the rule that every credit must be offset by a debit, and every debit by a credit. But, if the cash book is analyzed, it is seen that this exception does not really exist, since every transaction recorded either increases or decreases the supply of cash. When the cash entries are expressed in the journal, the equality of the debits and credits is plainly seen.

Take, for example, the left-hand page of a simple cash book. The total of the credit items is also a total of all the debits to Cash. Therefore, one debit to Cash at the end of a period is seen to be sufficient to balance the total of the credits. The equality of debits and credits is shown at the end of the period by posting this total to the debit of the ledger Cash account. "Dr." is placed on the left-hand page of the cash book to point out that the total of the credits on that page is debited to Cash. The reverse reasoning holds for the right-hand side of the cash book.

Since the total of the left-hand page of the cash

book includes the balance brought forward from the preceding period it is necessary to deduct this balance from the total to find the actual amount of cash receipts for the period. This opening cash balance, the result of previous receipts and payments, is already in the ledger Cash account as its balance. Only the actual receipts, therefore, should be posted to the ledger. If it were not for the fact that the amount of cash on hand must be shown at any moment by the difference between the debit and the credit side of the cash book, the cash balance at the beginning could be eliminated from the cash book until all receipts had been entered and posted.

8. Cash Book Columnarization

If a simple cash book is examined, it will be found to contain many similar items on both debit and credit sides. The idea of entering like items in special columns and periodically posting totals from them instead of posting the individual items has already been developed. The principle may with profit be applied to the simple cash book, as well as to other books of original entry, when it is found that this record is not analytical and informative as it should be, and that further reduction in the volume of work is necessary.

To illustrate the principle of columnarization, as applied here, the example may be taken of a business with two principal sources of cash receipts, namely, from customers on account and from cash sales of merchandise. The disbursements are chiefly to creditors on account of purchases and for office expense, freight, and salaries. If the simple cash book were used, each item would be posted in detail to its individual account. But

if two other columns are added to the original one on each side and in these are entered respectively the receipts from customers and from cash sales, and the payments to creditors and for the office expense, freight, and salaries, it will then be necessary to post only one item, representing the total of each such special column, at the end of the period instead of the many items included in that total.

In columnarizing the cash book, no matter how many columns are used, it is a good plan to reserve one column for net receipts and one for net payments, so that the balance may be ascertained quickly. The totals distributed to the special columns from which postings will be made periodically, plus the total of the miscellaneous column, can be proved against the column containing the net receipts or net payments, as the case may be.

Since purchases ordinarily do not involve the immediate payment of cash, and sales do not involve the immediate receipt of cash, purchase and sales transactions are not given columns in the cash book of the ordinary enterprise. Therefore, the columnar development generally concerns only customers' and creditors' controlling accounts, and as a necessary incident, discount transactions relating to customers and creditors. However, if income is directly measured by the cash receipts, as in an amusement enterprise, income may be classified in the cash book; otherwise, not.

9. Recording Cash Discount

If a customer paying a bill is allowed 5% discount, the cash received is less than the balance of the account.

An adjustment entry must be made somehow to make up this difference. The journal entry would consist of two debits and one credit, one debit being for 95% of the bill, to Cash, and the other being to Discount for 5% of the bill. The credit would be to the customer's account for the full amount of the bill.

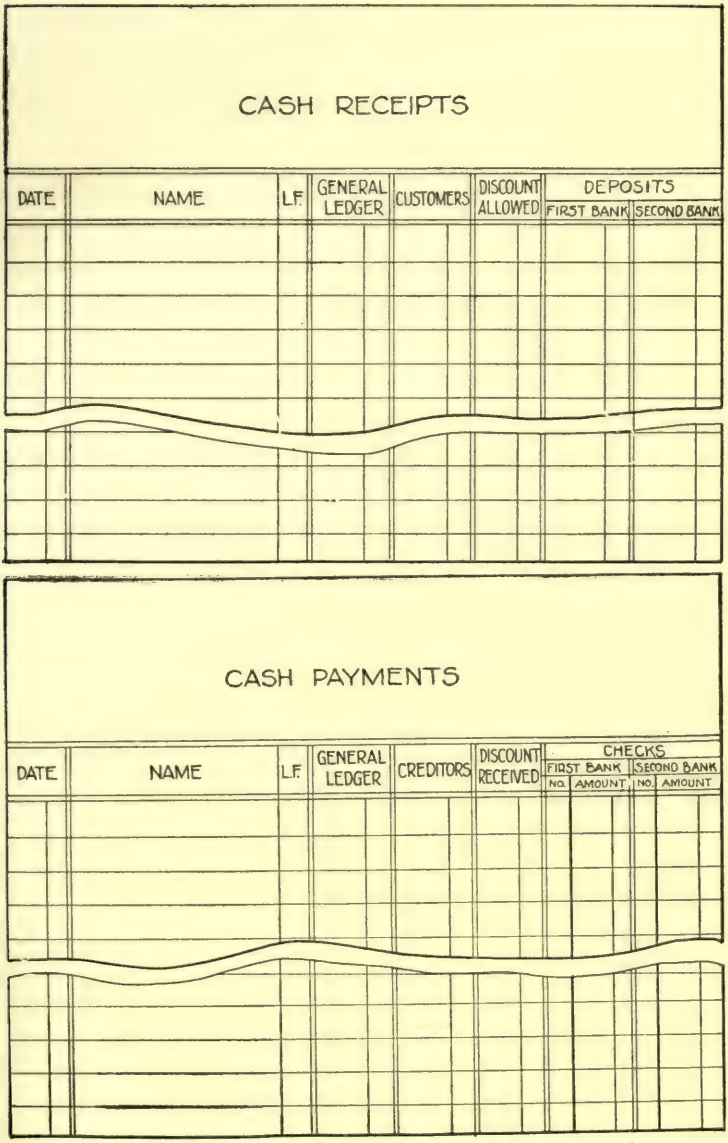
There are three principal ways of treating cash discount transactions on the books. (See Form 42 illustrating preferable method.)

1. Since the cash book should record only cash received and paid out, the net cash received may be debited, and the net cash paid may be credited, in the cash book. The discount allowed and received may be passed through the general journal. Each adjustment may be made individually or, if there are many, a page or two in the journal may be allotted to accounts opened with Discount Allowed and Discount Received, and the discount entries may be posted in totals.

2. The total amount to be credited to the customer may be debited as a cash receipt, and the amount of the discount entered on the other side of the cash book as a payment. (Vice versa for total amount to be debited to a creditor.)

3. The net amount of cash received may be entered on the cash book as a receipt and the discount entered in a separate column on the same side of the cash book. From here it is posted to the customer's account. (Vice versa for amounts paid creditors.)

This last method is similar to the first method described with the journal handling of the discount on the cash book; that is, a section of the journal is really carried on the cash book. This method saves the writing



Form 42. Cash Book with Controlling and Discount Columns (left- and right-hand pages)

of the customer's name twice and also brings the discount and the net cash together, which is as it should be. The amount of the Discount columns is ignored when the cash balance is determined.

10. Controlling Accounts with Debtors and Creditors

The usual method of posting controlling account items is to post the details to the individual accounts in the subsidiary ledgers throughout the month, and to post the totals of the columns at the end of the month to the controlling accounts in the general ledger. (See Form 42.)

For discussion of the proper use of the deposits column on the receipts side and of the checks column on the payments side of this cash book, see Chapter XVIII, § 1.

REVIEW QUESTIONS

1. In proceeding from the simple to the more complicated forms of cash records, in what ways may cash transactions be handled?
2. Describe the essentials of a proper cash system.
3. What is meant by the expression "handling petty cash payments on the imprest basis"?
4. Rule a form of cash book to provide for controlling accounts of debtors and creditors and for discounts in settlement of both receivable and payable accounts. What is the usual method of posting these figures?

CHAPTER XVIII

GENERAL CASH RECORDS (CONTINUED)

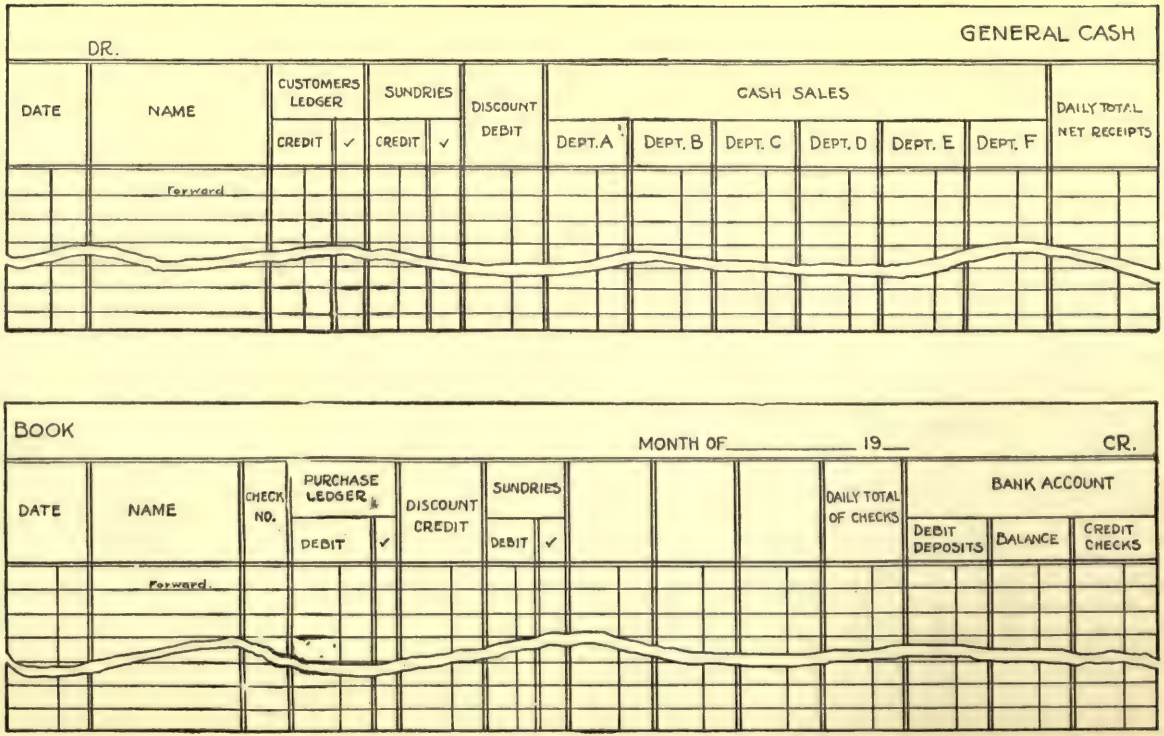
1. General Cash Book for a Mercantile Concern

Before developing the cash book further, one for a concern with six departments will be outlined.

As was stated in the last chapter, all receipts must be deposited in the bank intact, and all payments except petty cash payments must be made by check. Bank deposits should be made promptly. If possible, a deposit should be made each day just before the close of banking hours, so that as little money as possible will be left undeposited overnight. The deposit should include all items received from the time of the preceding deposit up to 2 P.M. of the current day. On Saturdays the deposit should include items received up to 11 A.M.

Whatever plan is followed in regard to the time and number of deposits, these rules should be observed:

1. All receipts must be entered promptly in the cash book.
2. The deposit made must equal the receipts per cash book since the previous deposit.
3. Deposit slips should be made in duplicate, so that the duplicate can be kept on file and will be available to facilitate the audit of the cash book.
4. Receipts subsequent to the final daily deposit are treated as the next day's business.



Form 43. General Cash Book (left- and right-hand pages)

The form of general cash book illustrated (Form 43) provides for cash receipts and cash payments in the same book. Should the receipts become numerous, this form can be divided so that the receipts section is in one binder and the payments section in another. More will be said about this subdivision later.

The items in the following columns must be posted individually:

1. Receipts side:
   Customers Ledger
   Sundries
2. Payments side:
   Purchase Ledger
   Sundries

The totals of the following columns must be posted at the end of the month to the appropriate general ledger account:

1. Receipts side:
   Customers Ledger, to Customers Ledger control
   Discount, to Discount Allowed account
   Cash Sales, to Cash Sales accounts
2. Payments side:
   Purchase Ledger, to Purchase Ledger control
   Discount, to Discount Received account

The bank balance is carried on the cash book. At the end of the month the footings of the total receipts and total checks columns should be checked against and should equal the totals of the "Bank Account, Dr." and the "Bank Account, Cr." columns respectively. These

bank account columns must be written up each day, the deposits being entered individually, and the checks for the day in total.

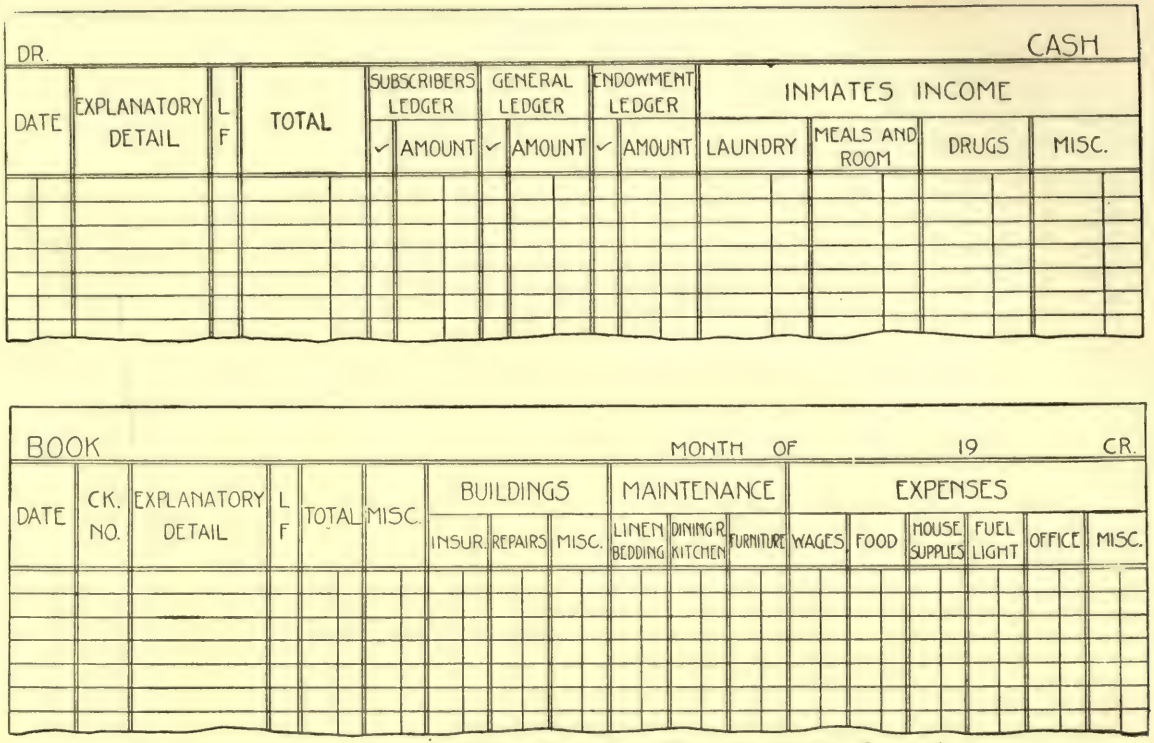
2. Cash Sales

In the cash book just shown, provision is made for the entry of cash sales. It is assumed that in the case of cash sales a distinct entry would be made in the cash book for such transactions. If cash sales are to be distributed according to classes of merchandise, or by departments, the same distribution columns will be found in the cash book as in the sales book. It is evident, therefore, that the rulings will be duplicated—the total sales being divided between the two records—and that the cash record will contain a mass of detail.

To avoid this condition, the sales book may be ruled to provide for the entry of both cash and credit sales. In that case, at the end of each day the total daily amount of cash received is transferred to the cash book; the charges to cash because of cash sales and the charges to customers will equal exactly the amount of the postings to the various sales accounts at the end of any period. It may be advisable, too, to eliminate the cash sales columns from the cash book entirely, entering the amount thereof daily in the net receipts column from the departmental cash sales distribution columns of the sales book.

3. Charitable Institution Cash Book

In a charitable institution a large number of the transactions will consist of cash receipts from subscribers paying all or part of their subscriptions. It is



Form 44. Charitable Institution Cash Book (left- and right-hand pages)

advisable to open a ledger account with each subscriber upon a subsidiary ledger, charging him with the amount of his subscription and crediting "Income from Subscribers" account. This separate subsidiary ledger will have a controlling account on the general ledger. When cash is received for subscriptions the amount is entered in the subscription ledger column on the cash book and posted, the column total being posted to the controlling account and the items to the subscription ledger accounts.

If the endowments of the institution are large the investment and income transactions will be numerous, and another subsidiary ledger should be used in which may be kept accounts with the various classes of investments and the income from them. This separate ledger also will have a controlling account on the general ledger.

The income from inmates, capital, legacies, and donations other than subscriptions, involves but few transactions, and may be carried in the general ledger columns on the cash book.

The cash book of a charitable institution should not contain a column for every known item of expense, as this makes the book awkward and wastes space. Care should be taken to avoid expansion of the cash book beyond the items suggested in Form 44.

4. The Cash Receipts Register

The receipts register is the development of the left-hand or debit side of the cash book into a separate record. The volume of business may be sufficiently large so that the cash book will be divided into two parts, one

for receipts and one for disbursements, or the volume of business may require one or more books for receipts and one or more for payments.

Some of the reasons for using a receipts register are as follows:

1. There may be a great number of cash receipts and very few disbursements. Instead of filling up the general cash book with all these details and wasting a number of corresponding pages on the disbursement side, a separate book may be used in which to record cash receipts.

2. The accounts with customers may be so numerous that several customers ledgers are necessary. In this event, a controlling account is used for each ledger, which necessitates providing columns on the cash book in which to collect the necessary details for each ledger. These columns may be so numerous that including them in one cash book would be very cumbersome and awkward.

3. Recording cash receipts with cash payments may involve more work than one employee can handle. In this case the cash record is divided and a separate clerk is given charge of each book.

More than one receipts register may be used. One may be used for the even days and one for the odd days, or one for two days' receipts and the other for the next two days' receipts, and so on alternately. Such alternation is employed to facilitate posting, because the transactions may be so numerous as to require that two persons work with the record at the same time. There may be several cashiers, each one using a separate receipts register. There may be several departments,

CASH RECEIPTS REGISTER FROM _____ TO _____

DATE	RECEIVED FROM	L. F.	CHARGE				CREDIT						L. F.
			NET CASH	SALES DISCOUNT	FRT. & EX.	SUNDRY	ACCOUNTS REC.	NOTES REC.	NOTES PAY.	INTEREST REC'D		SUNDRY ACCOUNTS NAME / AMOUNT	
	Forwarded												
	Carry Forward												

Form 45. Cash Receipts Register

CHECK REGISTER FROM _____ TO _____

DATE	PAYABLE TO	CHECK NO.	VOUCHER NO.	CREDIT		CHARGE					DEPOSITS	BALANCE	
				NET CASH	PURCHASE DISCOUNT	ACCOUNTS PAY.			NOTES PAYABLE	SUNDRY ACCOUNT / AMOUNT			
	Forwarded												
	Carry Forward												

Form 46. Check Register

each one requiring a separate register. The possibilities are many. Even when only one register for receipts is used, and still more when there are several, it is desirable to summarize the receipts and payments in a separate record so that the daily totals of all receipts and payments may be displayed together with the resulting balance.

Form 45 illustrates the principle of a separate record of all cash received. It takes the place of the debit side of the ordinary cash book. The sheets on which it is printed are numbered consecutively when printed, and every sheet should be accounted for, whether used or not. This last precaution facilitates auditing.

5. The Check Register

The check register is the development of the right-hand or credit side of the cash book. The reasons for its use have already been suggested in the section on the receipts register. The record shows the transactions with each bank, and should display the deposits as well. When this is done, the use of check book stubs on which to keep track of the bank account is unnecessary and checks numbered and bound in pads can be used. If a check is spoiled, or if it is not used after being made out, the space assigned it in the check register must be marked "void," since every check must be accounted for. Form 46 assumes that all cash payments are provided for by checks and a petty cash system.

If a voucher register is used, the expenditures of various kinds—labor, material, etc.—are not distributed

in detail in the check record, according to the common method in the ordinary cash book, but the voucher record itself is used for all such distributions. There must be a voucher for every disbursement, but when no analysis is desired in the cash book, checks are entered in the "Vouchers Payable" column. The voucher number is entered on the check register. A column is provided for showing discounts allowed by creditors.

The check register combines the following functions:

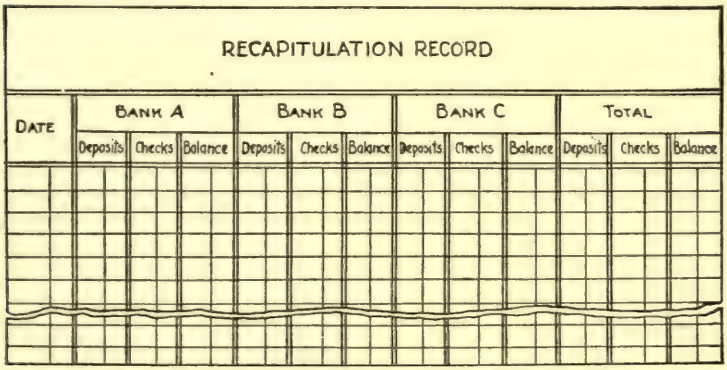
1. That of the check stubs.
2. That of showing bank deposits by banks.
3. That of the credit side of the cash book, taking into consideration the recording of creditors' discounts.

The preceding form of check register (Form 46) is presented because it is used in connection with that of the receipts register above. The use of the form needs no explanation except in regard to the deposits. In the deposits column is entered the amount of each bank deposit. The total amount of this column (or if more than one check record is kept, the grand total of the various deposits columns) should agree with the net cash column on the receipts register. The daily balances of cash in bank should be shown in the balance column. A separate check record should be kept for each bank in which an account is carried, and a distinct series of numbers used for each check record sheet and for the checks. It is possible to combine all the bank accounts on the one record, but the result is not as satisfactory as when a separate check record is kept for each bank.

When checks are drawn on one bank for the purpose of transferring money to another, the amounts should be entered in the sundry column of the check record of the bank from which the amount is withdrawn. They should also be entered in the deposits column of the check register of the bank to which the amount is transferred.

6. Cash Recapitulation Record

It has been shown above that the bookkeeping record for cash received and paid out may be divided to such an extent that several receipts registers and check registers are needed. When such is the case, control over these many records is secured by the use of what may be called a cash recapitulation record (Form 47),


RECAPITULATION RECORD

DATE	BANK A			BANK B			BANK C			TOTAL		
	Deposits	Checks	Balance	Deposits	Checks	Balance	Deposits	Checks	Balance	Deposits	Checks	Balance

Form 47. Cash Recapitulation Record

which provides a better means of keeping a record of the deposits in banks than does the check register alone. It is convenient to transfer deposits from the check register to the respective bank columns on the recapitulation record. Totals of checks drawn are also entered in this record.

7. The Voucher Check

An ordinary check, even though indorsed by the payee before collection, is not satisfactory as a receipt because it does not show the specific bills it pays. For this reason the payee, unless he has been given express instructions to the contrary, may apply the amount to any account. If the voucher system is in use, it is customary to send with the check the bill it covers (or the voucher relating thereto), in order to obtain a definite receipt. When a business is large the voucher system involves a great amount of labor in following up and filing the receipts and vouchers. To avoid this labor and expense, many concerns have adopted the plan of taking no receipts, but of merely preserving the indorsed check instead, as evidence of payment. Unless the check indicates the bill which is paid, this practice is distinctly bad.

To obviate the difficulty experienced in using ordinary checks, a most useful combination form of voucher check has been devised. Upon the face or back of this voucher check are set forth the items it covers. The voucher check is especially convenient, it may be remarked, when dividends are paid, because the number and amount of the dividend are clearly indicated on the check.

The voucher check must not be confused with the form of voucher described in connection with the voucher system; it may or may not be used as a part of that system. If used as part of the voucher system the check should show that it has been given in settlement of items set forth on a certain voucher; the original or duplicate of this voucher would be sent to the creditor

with the check; and the indorsement of the check by the creditor would serve as a receipt for the items set forth on the voucher.

Voucher checks are printed in many and various forms; some very satisfactory, others rather clumsy. The following principles should govern the construction of the voucher check:

1. It should be of standard check size. If necessary to use a folded form, this form when folded should be of standard check size, with the check or draft on top.
2. It should be negotiable in form.
3. If a detachable check is used, that also should be negotiable in form.
4. The original should be easily distinguishable from the duplicate, and should be of good quality of paper.
5. No extraneous matters, such as advertising, should be placed thereon.

The following form (Form 48) meets all requirements of a proper voucher check.

PAYMENT OF INVOICES	
DATE	AMOUNT
No Receipt Required	

Voucher No._____ Check No._____

THE CARSON TRADING COMPANY

NEW YORK CITY_____

Pay to the Order of_____ $_____

_____ Dollars

To the THE CARSON TRADING COMPANY

FIRST NATIONAL BANK OF _____ Treas.

NEW YORK _____ Mgr.

Form 48. Voucher Check

8. Opening the Mail

The purpose of this section is to present a method for an internal check on the receipts passing through the hands of the cashier in charge of the receipts register. By this method the misappropriation of any receipts which come through the mail is rendered more difficult.

As soon as the letters have been opened, the examination of the mail begins. The person who opens the mail is the one to check the enclosures. This person ought to be a confidential employee. In a large office, it is very unusual for the mail to be answered by the one who takes it from the envelopes.

The method of reading and checking should proceed in the following manner: First, each letter is examined to see that the signature and address are somewhere on the letter. If the signature is missing, the letter is put aside with the envelope, which has the town or city postmark, so that the file clerk may be able to trace it. A hasty glance through the letter will tell whether or not there should be any enclosures, because somewhere in the letter the writer will refer to the fact. The reader

MAIL RECEIPTS
January 14, 1919

From	Town or City	Amount	Remitted For

Form 49. Mail Receipts Memorandum

should determine that the enclosure is received and that it agrees with the amount stated in the letter. Then he indicates on the letter the receipt of the enclosure, so that a record will be available if the enclosure is mislaid or lost. The examining clerk should have beside him a memorandum pad upon which he can note the particulars of the receipts before they are turned over to the cashier. Form 49 is suggested for such a memorandum.

The receipts and necessary correspondence are turned over to the cashier for his record. The memorandum sheet is retained to be used later in checking up the entries on the receipts register.

9. The Mechanical Cash Register

The cash register is a well-known mechanical device which exists in many forms, such as those used in stores, in amusement parks, on street-cars, etc. The amount received is rung up, and a record is made in the machine at the same time, this record charging the person who collects with the amount deposited in the register. The moral effect of the use of a cash register is considerable, since, if the employee receiving cash fails to deposit and ring up the amount, he lays himself open to the suspicion of the customer. The key to the register should be kept in the hands of a responsible employee, perhaps the one into whose custody is given the sheet containing the list of mail receipts discussed in the last section. This person then has at hand the proper means for checking up the accuracy of the receiving cashier's accounts or records. The checking up should be done each day prior to taking the daily receipts to the bank for deposit.

REVIEW QUESTIONS

1. Indicate the rules that should be observed in handling cash, regard being paid to the time and the number of deposits.
2. Rule a general cash book that would be suitable for a mercantile concern with five departments, the cash transactions of each department being separated from those of the others.
3. Rule a general cash book that would be suitable for a charitable institution. The institution receives cash from different sources among which may be mentioned the following:
   Subscriptions
   Endowments
   Inmates' charges
   Miscellaneous
4. What are the purposes of a:
   (a) Cash receipts register?
   (b) Check register?
   How may control over these records be secured?
5. What principles should govern the construction of voucher checks?
6. What method of protection would you suggest in connection with cash receipts which come through the mail?
7. A book store keeps $25 in its cash register at all times as a fund from which change is made. The store sells books both for cash and on time. Briefly outline a system for handling the store's cash sales based upon the use of a cash register.

CHAPTER XIX

PETTY CASH RECORDS

1. The Imprest System

The course of development of the various cash book records has been outlined and most of the forms now in use have been described. There are, however, a few other problems for consideration, the most important of which have to do with petty cash. Since the imprest system is now accepted as the only modern method to be used in the handling of petty cash payments, no other will here be considered.

The principle of the imprest system is that all money to be expended for petty expenses is advanced from the general funds to a special fund out of which it is then disbursed as required. The petty cashier is required to secure a voucher or receipt for every payment, however trivial, so that the total of these slips added to the total cash remaining in the petty fund will at all times equal the original amount advanced.

2. The Fixed Fund and Account for Petty Cash

The fixed ledger account shows the petty cash fund in the ledger charged with the fixed amount. No other entry is made in the account unless the fund has been increased, decreased, or discontinued. The fixed amount equals petty cash on hand plus petty cash vouchers in charge of the petty cashier.

To create the fund, a check is drawn in favor of

"Petty Cash Fund" for an amount sufficient to meet the ordinary cash expenses for a week, or a month. This check is entered in the general cash book and charged to the "Petty Cash Fund" account. That account remains on the ledger as an asset and will not be changed in any way until the amount of the fund is increased, reduced, or discontinued.

The proceeds of this check are given to the petty cashier. As payments are made from this fund, petty cash vouchers, O. K.'d by someone in authority, must be secured by the cashier.

When the fund gets low, the cashier will turn in the vouchers for the payments made after making up a proper analysis of them from the petty cash sheet, and then a check will be drawn in favor of "Petty Cash Fund" for the total amount of the vouchers. This check is cashed, and the fund restored to its original amount.

The asset on the ledger called "Petty Cash Fund" must always be represented in the hands of the cashier by its full equivalent in cash, or cash and vouchers, or in vouchers alone. When the petty cash vouchers are turned in by the cashier, the petty cash sheet showing the accounts to which the payments are to be charged must accompany them. An entry will be made in the cash book debiting the appropriate accounts and crediting Cash.

3. The Petty Cash Book as a Posting Medium

It may be desirable to record petty cash transactions in a bound book and to use this record as a direct posting medium. A slight modification of the imprest method

PETTY CASH DISBURSEMENTS

Fund $_____ Sheet No. _____

Sheet kept by _____

O.K.'d by _____

Paid by Check No. _____ Date from _____ 19____ to _____ 19____

Date	Dept. No.	To Whom	Amount	Postage	Errands	Exchange	Freight Express	Telephone Telegraph		Sundries
.....	.....	Amount brought forward.....	.....	.....	.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....

Form 50. Petty Cash Book

will enable this to be done. The book used is ruled according to the desired classification. The voucher system is still followed, but the person in charge of petty cash, instead of handing the vouchers to the bookkeeper to be used as records for entry in the main cash book, retains them. Postings of the totals of the analyzed payments are made directly from the classified columns of the petty cash book to the respective ledger accounts.

The total of the postings is credited to the Petty Cash account, and a check is then drawn to Petty Cash for the same amount and entered upon the general cash book, thus replenishing the fund.

A form meeting the requirements for Petty Cash disbursements is outlined in Form 50.

4. Petty Cash Vouchers

Petty cash vouchers (Form 51) should be prepared and numbered in advance. Before any disbursement is made the person responsible should prepare a voucher,

CARSON TRADING CO. No. 27

PETTY CASH VOUCHER

Charge _____

_____

_____

Entered Ledger _____

..... | .....

..... | .....

..... | .....

..... | .....

Signature

_____

Approved by:

_____

Form 51. Petty Cash Voucher

filling in the details. Usually a formal voucher is unnecessary; any slip of paper properly filled out with amount, purpose of the expenditure, and with the signatures of the receiver of the money and the necessary approval, is sufficient. A form about 3 x 5 inches is large enough.

5. Handling Many Items of a Similar Kind

At times it is found that a large number of petty cash transactions of a like nature take place daily. For example, there may be over a hundred demands for carfare alone. To save time and labor the vouchers are classified and those of each group added together at the end of the day, each group total requiring but one entry on the petty cash book, which may be posted direct to its proper ledger account. Then the next morning a check is drawn for the amount of this expenditure. The balance on hand is always ample for the day's needs and yet not too much for normal and reasonable requirements. If the amounts are transferred to a columnar summary book, previous to being posted to the ledger accounts, a "tick" column should be provided on the record for checking the amounts.

REVIEW QUESTIONS

1. Enumerate and describe the methods of handling petty cash on the imprest basis:
   (a) As regards the fund
   (b) As regards the ledger account
2. How may the petty cash book be used as a posting medium?
3. Rule a form on which petty cash disbursements may be recorded.
4. What is the purpose of a petty cash voucher? Rule one.

CHAPTER XX

MISCELLANEOUS CASH RECORDS

1. The Cash Journal

This chapter discusses methods of handling various minor matters relating to cash that frequently require attention.

The cash journal is a combination of the columnar cash book and journal, or better, it is the journal developed in columnar form to include cash transactions. For a small business or for household or professional accounting its use may be worth while. A cash journal for a professional man is described in connection with the discussion of an accounting system for an attorney in Chapter XXXIII.

In some lines of business the cash journal is popular, although its use is so limited and usually so undesirable that but brief consideration need be given it here. Its disadvantages, usually overbalancing its advantages, are:

1. Only one person can work on the accounts at a time.
2. Only a few accounts can be handled by totals in a book of workable size.

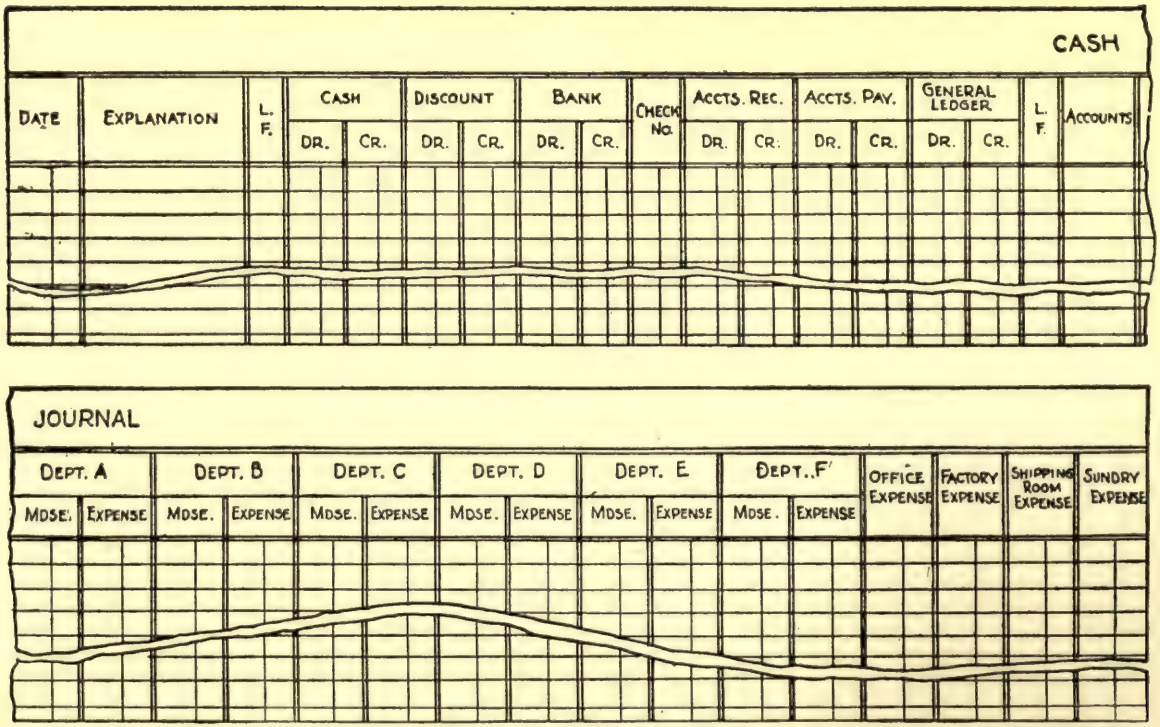
The form of a cash journal here submitted (Form 52) is suitable for a small manufacturing concern with six production departments.

All the entries on the right-hand page are debits, the credits offsetting each entry being on the left-hand page. The headings of the columns are virtually self-explanatory. When raw material is purchased, the total amount is entered in the debit columns for merchandise of the department or departments where the material will be consumed, and the credit is entered either in the bank credit column, if paid by check, or to the credit of accounts payable, if bought on time. All bills should be filed alphabetically and indexed for ready reference.

When checks are drawn for salaries and wages, the total amount is entered in the bank credit column and the distribution into departments is secured from the pay-roll book and entered in the expense column of each department.

Every entry made in the cash journal should be supplemented with a brief but clear explanation. Whenever entries are made involving accounts for which no columns have been provided, the general ledger column is used for the amounts and the accounts column for the names of the accounts concerned. All cash received is entered in the cash debit column, and when deposited is transferred to the cash credit column and finally transferred to the bank debit column. Accounts receivable and payable are posted daily to the proper personal accounts, folios being given for cross-reference. The only other daily postings are the items entered in the general ledger column.

At the end of the month each column is added. The total debits must equal the total credits. The totals are entered on one line across the page and ruled off with



Form 52. Cash Journal (left- and right-hand pages)

a double line. After this is done, the monthly postings are carried into the general ledger. Certain accounts like discount, interest, and expense may need to be analyzed before posting, such as sales discounts, discount on notes receivable, etc. Since the general ledger column has been posted in detail each day, the total is not posted again.

At the end of the fiscal period when the books are closed certain journal entries must be made, such as Inventory New to Inventory Old, Interest Payable to Interest Payable Accrued, etc., in order that a correct profit and loss statement and a balance sheet may be secured. The names of these accounts are entered, before closing the books, in the accounts column of the cash journal, and the amounts are entered in the general ledger column.

2. Cash Memorandum for Goods Returned

All adjustments should be placed in the hands of one special person. Demand for the correction of errors should be made to this adjuster. If satisfied with the demand, this person notes the fact on a cash refund ticket.

On the form suggested (Form 53) the adjuster punches out the amount of the adjustment. Such cash refund tickets may be made in duplicate, one for the customer and one for the office. They are numbered consecutively. They are transferable and may be collected in cash or passed in as payment or part payment on additional purchases. Cash adjustments are handled easily through the petty cash fund, the memorandum being the voucher for the expenditure.

3. Cashier's Cash Distribution

The daily cash detail sheet shown in Form 54 may be used by the cashier of a mercantile concern,

No. 417

CASH MEMO

CARSON TRADING COMPANY

New York City

Sold by_____ Department_____ Date_____ 19__

Name of Customer_____

Reason for Return_____

Approved:_____

Tens	$	10	Cts.	Quantity	Articles	Amount
0	0	0	0	.....	.....	.....
1	1	1	1	.....	.....	.....
2	2	2	2	.....	.....	.....
3	3	3	3	.....	.....	.....
4	4	4	4	.....	.....	.....
5	5	5	5	.....	.....	.....
6	6	6	6	.....	.....	.....
7	7	7	7	.....	.....	.....
8	8	8	8	.....	.....	.....
9	9	9	9	.....	.....	.....

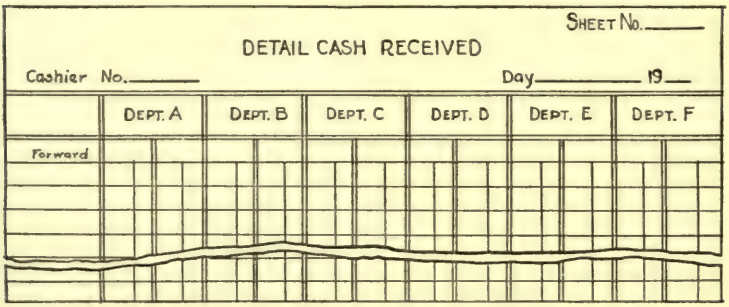
Form 53. Cash Refund Ticket

as the cash sales checks come in. After the daily balance is secured the totals are transferred to the general cash book.

When the record has been entered in the general

cash book, the sheets may be placed in a cheap sectional post-binder or a spring-back cover, where they may be referred to at any time required.

If desired, this sheet may be omitted from a system in which many cash sales must be accounted for, the cash sales receipts being entered directly on the general cash book, or on the sales book if sales distribution columns are not placed in the cash book. Greater neatness, however, in the appearance of the general cash book will result if this cash distribution form be used, as more attention can be paid to the arrangement and entry of items from these forms to the cash book than would be possible if entered direct from the sales checks.


SHEET No._____

DETAIL CASH RECEIVED

Cashier No._____ Day_____ 19__

	DEPT. A	DEPT. B	DEPT. C	DEPT. D	DEPT. E	DEPT. F
Forward						

Form 54. Cash Distribution Sheet

Customers' payments of accounts, it must be remembered, are always entered directly on the general cash book.

4. Daily Cash Report

The following form (Form 55) is suggested as a daily report of cash, which may well be required of the cashier. It is self-explanatory. Each report should be

signed by the cashier making it. This requirement of a guarantee of correctness has a moral effect which is worthy of consideration.

DAILY CASH REPORT

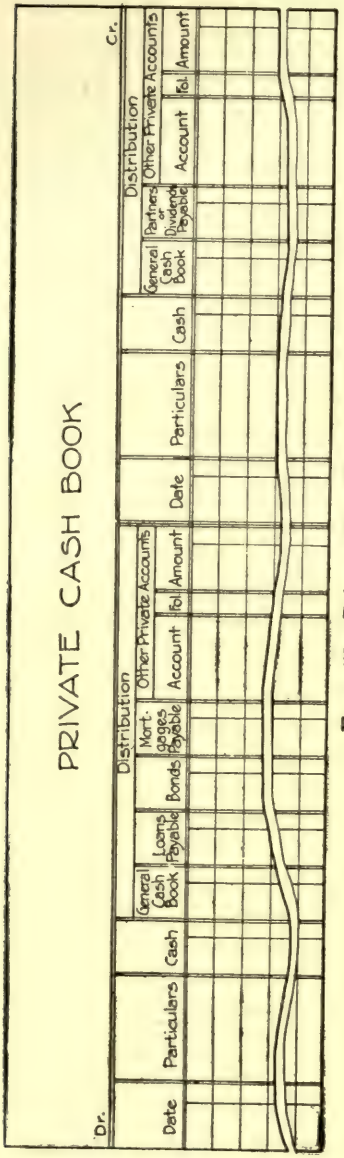
——————19——

Receipts			Payments		
Customers' Accts. (Gross)			Accounts Payable (Gross)		
Less Discounts.			Less Discounts.		
Cash Sales			Exchange		
Other Items			Other Items		
Total Receipts today			Total Payments today		
Bank Balance — end yesterday			Bank Balance — end today		

Form 55. Daily Cash Report

5. The Private Cash Book

The private cash book is still another outgrowth of the general cash book. It is used in connection with a private ledger (Chapter XXII, § 18) to record as they occur all transactions incident to the financing of the enterprise. A column headed "Private Cash Book" would be found on both the debit and credit sides of the general cash book. Financial transactions kept in a private cash book by a trusted employee would not be available for scrutiny except by those persons directly interested. A suggested form for such a cash book is shown in Form 56.



Form 56. Private Cash Book

REVIEW QUESTIONS

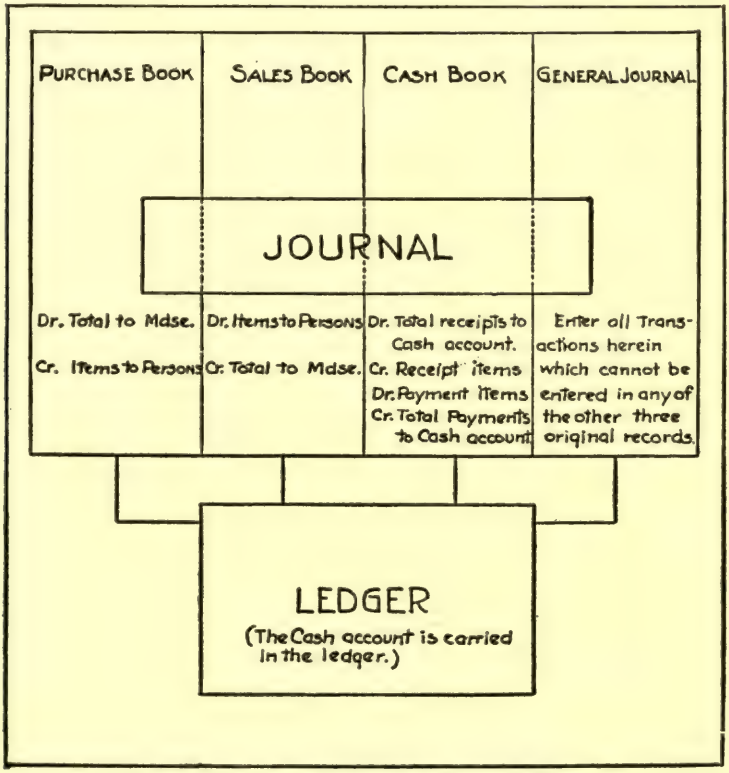
1. What is a cash journal? When is its use worth while?
2. Rule a cash journal for a wholesale commission merchant who sells partly upon his own account.
3. What is the purpose of a cashier's daily cash distribution sheet?
4. Rule a form for a cashier's daily cash report.
5. What is the purpose of a private cash book? Outline the bookkeeping entries in connection with its use.

CHAPTER XXI

THE JOURNAL

1. Books of Original Entry

In a mercantile or trading business today, as already observed, the usual books of original entry, bound, loose, or card form, are the journal, purchase book, sales



Form 57. Chart of Books of Original Entry

book, and cash book. The latter three are but sections of the journal kept separately and developed individually. The preceding simple diagram (Form 57) shows this subdivision.

The journal, therefore, is at present largely displaced by special books of original entry, their subdivision sometimes being carried very far. Though this be true, the former function of the journal must be, and still is, performed. Every book of the original entry, no matter how specialized it may be, is in effect and function a journal. As has already been indicated, a book of original entry, to serve properly as a posting medium, must be kept with two purposes in mind:

1. The business transaction must be so recorded that later, if necessary, it can be reproduced in detail.
2. The elements of the business transaction must be set out clearly, so that the proper ledger accounts can be debited and credited.

2. Entries in the General Journal

From what has been indicated, it may properly be assumed that the present-day journal contains only entries which find no place in any other record of original entry. If any one set of transactions is sufficiently large to be carried profitably in a special original entry record, a form is constructed, the new record is tied into the system, and thereafter such transactions are entered in it. This development is evidently a natural consequence of the large scale on which so much of modern business is conducted.

This process of elimination has stripped the general

journal gradually to such a point that at present only the following types of entries are carried in it:

1. Opening entries
2. Adjustment entries, including also entries of a peculiar character which are essentially adjustments
3. Closing entries

Where returned purchases and sales and customers' allowances are many, a separate record (a journal) is used for each class, these being kept on the basic principle which has already been explained.

3. Opening and Closing Entries

The first entries in a present-day general journal are usually of great importance. By means of such entries the opening condition of a concern is formally recorded. For a partnership, opening entries will be made to show the amount of the assets contributed to the enterprise, and the interest of each of the contributors in these assets.

Opening entries for a partnership:

Cash	$5,000.00	
Merchandise	6,000.00	
To Richard Smith, Capital		$4,500.00
" Henry Martin, Capital		6,500.00
(Explanation.)		

For a corporation, opening entries will be made to show the issue of capital stock and the assets acquired for it. Except for the capital stock, these entries are similar in general to those of a partnership or of a sole proprietorship.

Opening entries for a corporation:

Cash	$25,000.00	
Patent Rights	60,000.00	
To Capital Stock		$85,000.00
(Explanation.)		

Special journal entries are made also, on the date of closing the books, as preparatory to presenting the periodical profit and loss account or statement and the balance sheet, whether the business be that of a sole proprietorship, partnership, or corporation.

These classes of entries may be said to be the only ones which are at the present time passed through the business record now known as the journal. The entries for nearly all other business transactions are made in journal records which carry names other than "journal," as the cash book, purchase book, sales book, returned purchases book, returned sales book, allowances journal, etc.

4. Journal Vouchers

Many adjusting journal entries are merely routine in character. For making such entries frequently no explicit authority need be secured. However, since it is impossible to tell whether an entry will later be disputed, it is better to have every entry vouched for, that is, approved by someone in authority, as a measure of protection to minimize the disputes. To illustrate, a journal entry may have an important bearing on the cash account, as when a journal entry debit may be used to record an allowance to a customer; or it may have an important bearing on certain individuals, as when an entry adjusts personal accounts. An entry of this

kind may later be questioned, perhaps long after the details of the transaction have been forgotten.

A voucher is written evidence of a fact which is to be entered in a permanent accounting record. (See Volume I, Chapter XXII.) The form of voucher is a matter of choice, and it differs in most businesses. Journal voucher forms (Form 58), sometimes made in

JOURNAL VOUCHER

No._____

Date_____ 19__

Accounts	Dr.		Cr.	
.....	.....	...	.....	...
.....	.....	...	.....	...
.....	.....	...	.....	...
.....	.....	...	.....	...

Explanation _____

Made by_____

Authorized by_____

Checked by_____

Entered Journal page_____

Form 58. Journal Voucher

duplicate, are generally furnished the bookkeeper in pads. The vouchers are numbered consecutively and they are entered in the journal in the same consecutive order. When a voucher has been prepared, dated, signed, and approved, with the accompanying papers attached to it, it is turned over to the bookkeeper for entry in the journal. In journalizing, no particulars need be given except the voucher number, date, accounts to be debited and credited, and amounts.

5. The Two-Column Journal

The simple journal ruling provides for two money columns, debit and credit, one alongside the other, at the right of the page. The space to the left of these two columns is used to show the details as to accounts, dates, remarks, etc. This arrangement with the two money columns is the simplest form of journal. By the use of this journal a complete record of every business transaction with its relation to the existing account classifications may be secured. The use of two columns in journals is not peculiar to either single or double entry. Both methods could use indiscriminately either one or two journal columns. Originally both methods used one column, the debit earmarked "Dr." alongside the amount affected, the credit being earmarked "Cr."

While the day-book used under single-entry bookkeeping may very conveniently make use of the one column only, two columns ought to be used in the double-entry journal, so that both the debit and credit of every transaction entered may be set out clearly. This calls attention to the exact nature of each transaction. The left-hand amount column of a journal is always used for debits, and the right-hand column for credits. The same rule prevails as to the use of the cash book and of all ledger accounts. This is the unvarying practice.

Perhaps the first step in the development of the simple two-column journal was to separate the two columns so as to make a sharper contrast between debits and credits, and to condense the amount of detail given in the explanation. The form presented below (Form 59) shows this development. This form of journal

proved more desirable as a posting medium than the original form. Debits and credits were set out clearly, and less confusion in posting resulted.

Month of————19—

Debits	L.F.	Explanation		L.F.	Credits
500.00	10	Merchandise From J. Jones	Notes Payable	15	500.00

Form 59. Two-Column Journal

6. Three-Column Journal

A three-column journal may be similar to a two-column journal except that at the right of each page there are three columns instead of two. It is desirable, when introducing a form of this sort, to indicate at the top of each column the use which will be made of it. In the form given herewith (Form 60) the first two columns are headed "General Ledger" with the word "Debit" under the general heading for the first column and the word "Credit" for the second column. The third column is headed "Accounts Receivable Credit." Even though it may not be necessary to identify columns where a bookkeeper is well experienced, it is usually a good plan to do so. Especially is this so where a new system is being installed; experience shows that fewer mistakes are made and a better understanding of

the system is secured if the title of every column is given. At all times there is the possibility that employees who are somewhat inexperienced may work on the records. Illustrative entries in a three-column journal are shown below.

August, 1919

Date	Explanation	L.F.	General Ledger Dr.	General Ledger Cr.	Accounts Receivable Cr.
	– 17 –				
	Allowances		$ 75.98		
	To John Smith				$14.13
	" Richard Doe				13.78
	" David Roe				29.97
	" Edward Kahn				18.10
	For allowances approved this day on account of breakages on customers' deliveries.				
	James Cannon		1,000.00		
	To Notes Payable			1,000.00	
	For note this day given.				

Form 60. Three-Column Journal

The totals of the two credit columns should equal the total of the one debit column. This proves the mathematical accuracy of each journal entry.

The third column in the three-column journal illustrated is designed for the purpose of collecting the detail adjustment items to be credited to individual customers' accounts in such form that they are not likely to be posted to the wrong ledger, and of arranging them so that a monthly total can be secured quickly for the

controlling account. It may be assumed here that the items are not numerous enough to demand a separate record, but of sufficient importance to require a separate column in the journal.

This type of journal lends itself readily to transactions of a similar nature. Its use may be summarized by the statement that where there are numerous detail adjustment postings to one subsidiary ledger which is controlled by an account in the general ledger, one additional column may be added to a two-column journal in which these detail items may be collected for posting to the subsidiary ledger and for easy determination of their total.

A three-column journal may conveniently be used in other ways than that indicated above. By heading the second and third columns, "General Ledger Debit" and "General Ledger Credit" respectively, the first column may be used for detail calculations and the listing of items which are not to be posted but which are involved in the calculation of the debit or credit which is to be posted. For example, if several freight bills are to be charged to a customer, the bills may be listed in detail in the first column, the debit to the customer's account given in the second, and in the third the credit to the freight or other account which is involved.

7. Four-Column Journal

With certain types of business many transactions must be recorded in two kinds of money. In such a case a four-column journal (Form 61) can be used to advantage. Concerns engaged to any extent in foreign trade usually make their entries in this way.

A certain concern has two plants—one in New York and the other in Paris; each office purchases for the other. Purchases made in New York for Paris would be entered upon the New York books in dollars and francs respectively. The reverse order would be employed upon the books of the Paris office when purchases were made for New York. The form given herewith illustrates the arrangement of the journal for such a concern.

Month of_____19__

Date	Explanatory Detail	L.F.	Exchange Rate	Debits		Credits	
				Dollars	Francs	Dollars	Francs
.....	.....	.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....	.....	.....

Form 61. Four-Column Journal

Under these conditions each ledger account must be ruled with two debit and two credit columns. At the end of the fiscal period only one adjustment need be made in each set of books, and the balance can be discharged by an actual exchange of cash. Furthermore, during periods when the exchange rate may be fluctuating rapidly, certain advantages may accrue to both branches of the business if they make use of the greater purchasing power of money in one country over another. A four-column journal simplifies the recording of these transactions.

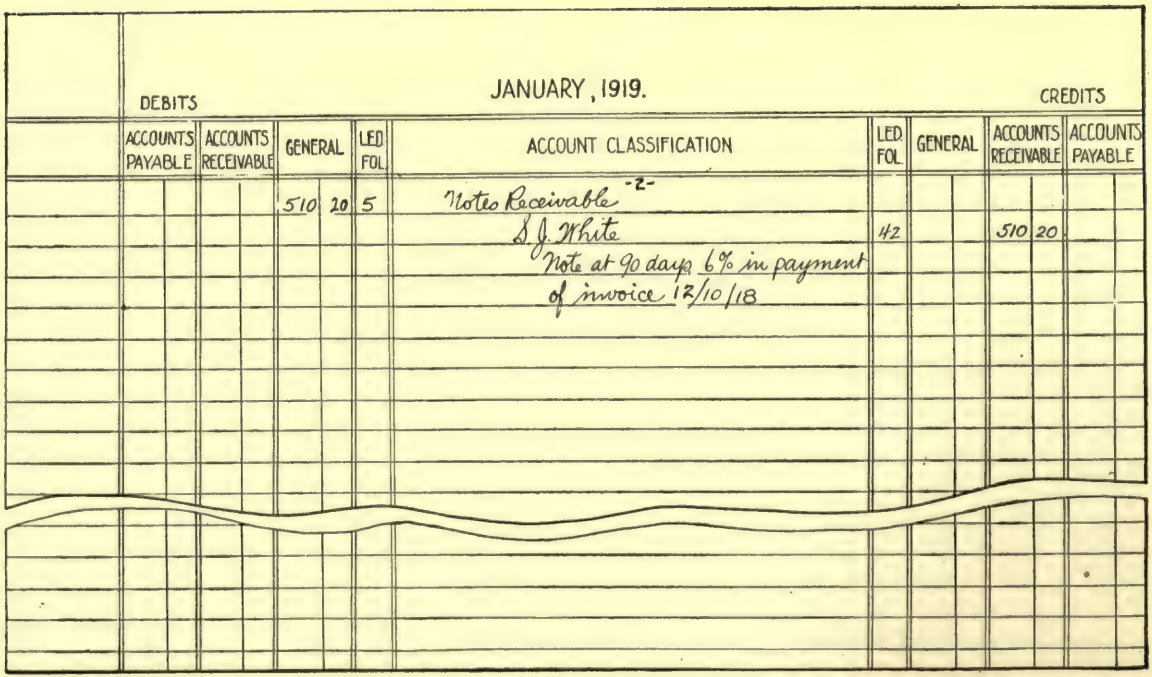
In a small business the purchases and sales might not be sufficient in number to require a separate record

for each, yet numerous enough for each to be given a column in the journal. Following the idea of the three-column journal considered in the preceding section, the three-column journal recording sales in a separate column could be expanded by the addition of another column for purchases. This is perhaps the most frequent use to which the four-column journal is devoted.

8. Six-Column Journal

A six-column journal serves many useful purposes. In a journal of this type each transaction may be analyzed by entering component elements under the debits or credits in which they fall. In a form such as is shown below (Form 62)), the three columns on the left are used for debit and the three on the right for credit entries. The columns are headed "General," "Accounts Receivable," and "Accounts Payable."

Detail postings are made to the respective accounts affected. The totals of the columns shown on the left should equal those on the right. When this verification has been made, the totals of the controlling account columns are posted to the proper general ledger accounts. By making only two postings from the journal to the controlling accounts of Accounts Receivable and Accounts Payable, respectively, time can be saved. Explanatory matter is written in the center space immediately alongside the entry to which it refers. When amounts are to be shown in more than two monetary columns, a line is allotted to each amount. The totals of the monetary columns are carried forward from page to page until the end of the month, when a proof of the journal footings is made.



JANUARY, 1919.

	DEBITS								CREDITS							
	ACCOUNTS PAYABLE		ACCOUNTS RECEIVABLE		GENERAL		LED FOL.	ACCOUNT CLASSIFICATION	LED FOL.	GENERAL		ACCOUNTS RECEIVABLE		ACCOUNTS PAYABLE	
					510	20	5	Notes Receivable -2-							
								S. J. White	42			510	20		
								Note at 90 days 6% in payment of invoice 12/10/18							

Form 62. Six-Column Journal

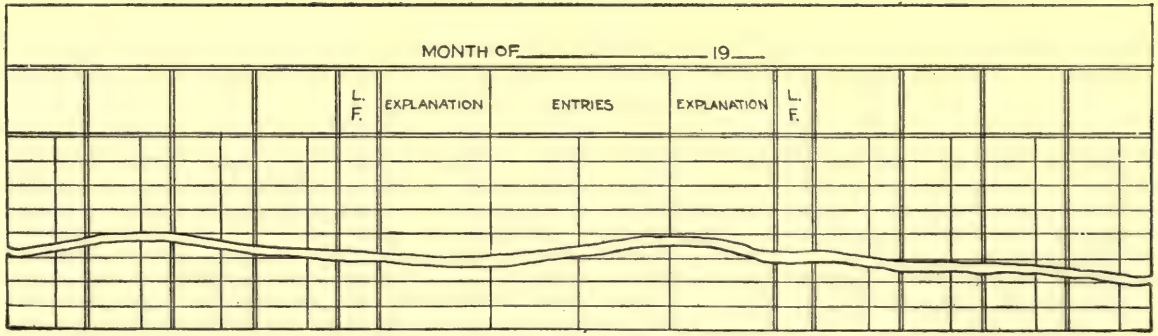
9. "Left and Right" Journal

This type of journal, somewhat resembling in form the six-column journal just mentioned, provides writing spaces in the center of the page, with columns on either side properly headed for the entry of amounts.

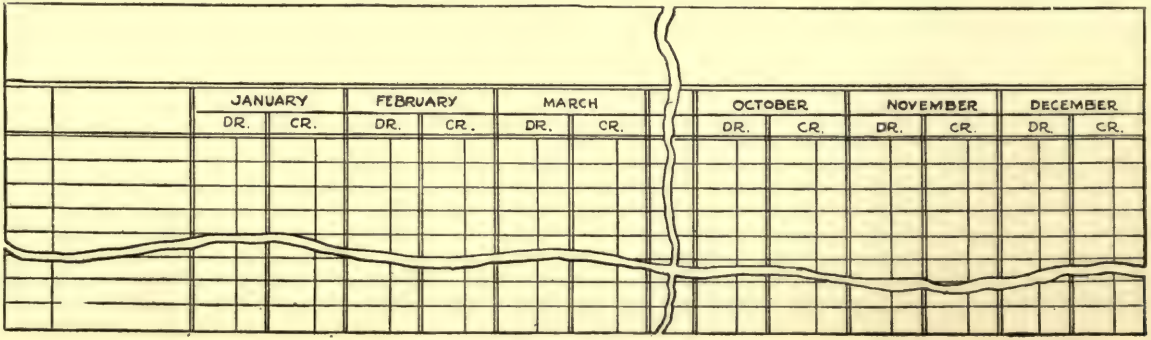
A sufficient number of columns should in all cases be provided to cover all information to which reference must frequently be made. Not all the columns should be given printed headings; some should be left blank for unforeseen requirements. The usual form is shown in Form 63.

Where a large number of journal entries are necessary, many of which are similar and recur from day to day, it is not always expedient to write long detailed explanations. Not infrequently the character of the entry itself is sufficiently explanatory. When this is the case it is practical to employ only two lines for each entry, writing the names of the accounts and the amounts upon the first line. The second line can be used to give a brief description of the record.

With a form of this kind an analysis of the journal entries can readily be made, the respective columns can be totaled without difficulty, and postings can be made conveniently to the controlling accounts at the end of the month. Each journal entry may well be separated from the other entries by a blank space, and the line upon which the date is placed answers this purpose. In this way, the text and monetary values are shown in a logical and intelligible manner. It must be remembered that where the greater number of journal entries require considerable explanation a journal of this type may be of but little practical service.



Form 63. "Left and Right" Journal



Form 64. Cut Sheet Journal

10. Cut Sheet Journal

When a number of like entries need to be made at the end of regular periods of time, a cut sheet journal (Form 64) can be used advantageously. The master sheets upon which the text of each entry is written are wider than the insert sheets—those upon which amounts alone are shown. The master sheet may include a few columns for amounts, but the insert sheet is wholly made up of these columns.

A debit and credit column is provided for each month of the year. The text of the entries, which is the same for each month, is written on the master sheet in the space provided. Postings are made from the amounts shown in the columns headed with the respective months of the year. By ruling every fifth horizontal line more heavily than the others, the spaces between can readily be used for separate journal entries and explanations. A cut sheet journal can often be used advantageously in an office where it is the practice to close the general books at the end of each month, and where many of the journal entries are similar from month to month. Examples of entries of this kind follow:

Profit and Loss	$.....	
To Reserve for Depreciation		$.....
(Explanation.)		
Insurance Expense	.....	
To Insurance Paid in Advance		.....
(Explanation.)		
Shipping Room Expense	.....	
To Shipping Room Inventory		.....
(Explanation.)		

REVIEW QUESTIONS

1. Is the use of debit and credit columns in journals essentially an attribute of either the single-entry or the double-entry system of bookkeeping?
2. Compare the former use of the journal with its present use.
3. What difficulties may the bookkeeper encounter if a journal entry is not supported by a proper voucher?
4. At what point in the development of a business should the simple journal, recording all transactions, be expanded:
   (a) Into the columnar journal?
   (b) Into separate journals in which to record separate classes of transactions?
5. What is the purpose of:
   (a) The cut sheet journal?
   (b) The left and right journal?

CHAPTER XXII

THE LEDGER

1. General Use

The ledger is a book used for collecting and classifying all the debits and credits resulting from entries of transactions made in the records of original entry and books of summarization. The debits and credits are entered under the names of the persons, things, or activities involved. A page, or section of a page, in the ledger is reserved for, and headed with, the name of each person, thing, or activity under which classification is desired; under that name the required account is kept so that its debit and credit facts are displayed. The exact procedure to be followed has been explained fully in Volume I.

2. Records of Original Entry

These are records which show the first or original entries of business transactions. The journal, cash book, duplicate bills or sales books, purchase book, voucher record, or invoice book, are examples of records of original entry.

3. Records of Summarization

The term, "records of summarization," has not been mentioned before, although records of this sort have been discussed and considered in their relation to an accounting system. Records of this nature are the bound

or loose-leaf books used for summarizing the transactions shown on certain books of original entry. An example of such a book would be the Sales Summaries when the duplicate billing system is used—the duplicate copies being the original record of sales and the summary being required to secure monthly totals for general ledger postings.

4. Standard Ledger Form

The standard ledger ruling is familiar to everyone who keeps accounts. If the distinction between the debit and credit items is the only one of sufficient importance to be embodied in the record, the standard form of the ledger page should be used.

In using the standard form, two separate records are actually displayed side by side, each occupying half the page from left to right, and each including the same kind of columns, namely: columns for date, explanation, folio, and amount. The debit is on the left and the credit on the right side of the page. (See Form 65.)

5. Development of Ledger Ruling

Sometimes a classification other than that of debits and credits may be so important that it must be provided for on the ledger page. In such a case, the standard form will be superseded by whatever form is better adapted to fit the special need. These variations of the standard ledger ruling are considered in the present chapter.

In the development of the ledger from the point of view of constructive accounting, several variations in

DATE	EXPLANATION		AMOUNT	DATE	EXPLANATION		AMOUNT

Form 65. Standard Ledger Form

DATE	EXPLANATION		AMOUNT Dr.	AMOUNT Cr.		EXPLANATION	DATE

Form 66. Ledger with Money Columns in Center for Balancing Purposes

the ruling are to be considered. This development may occur along any of the following lines:

1. Bringing the debit and the credit columns together.
2. Adding a column for balances.
3. Adding a column subsidiary to the main column for the analysis of the main column amount.

6. Ledger Form with Debits and Credits in Center

In a journal it is usually desirable to keep the money columns separated one from the other so as to eliminate as much as possible any chance for error due to posting items of one kind as items of the other. In a ledger, however, the opposite principle seems to give more satisfaction. Columns may be placed close together to provide for easy cross-reference.

If the plan of the business is such that a balance is needed frequently, although not after every transaction, the specially ruled form shown in Form 66 answers the purpose. The money columns are placed close together, an arrangement which simplifies the work of abstracting a balance.

7. The Journal-Ruled Ledger Form

Another form of ledger ruling is that which has the appearance of a journal (Form 67). Under certain conditions it is a space-saver. If the number of debit entries is much larger or much smaller than the number of credit entries, this form of ledger will prove useful in the elimination of unused space.

At times it is desirable to include a balance column

on the journal-ruled ledger. If so, the usual place for it is to the right of the credit column.

Date	Explanation	Folio	Debit	Credit

Form 67. Journal-Ruled Ledger

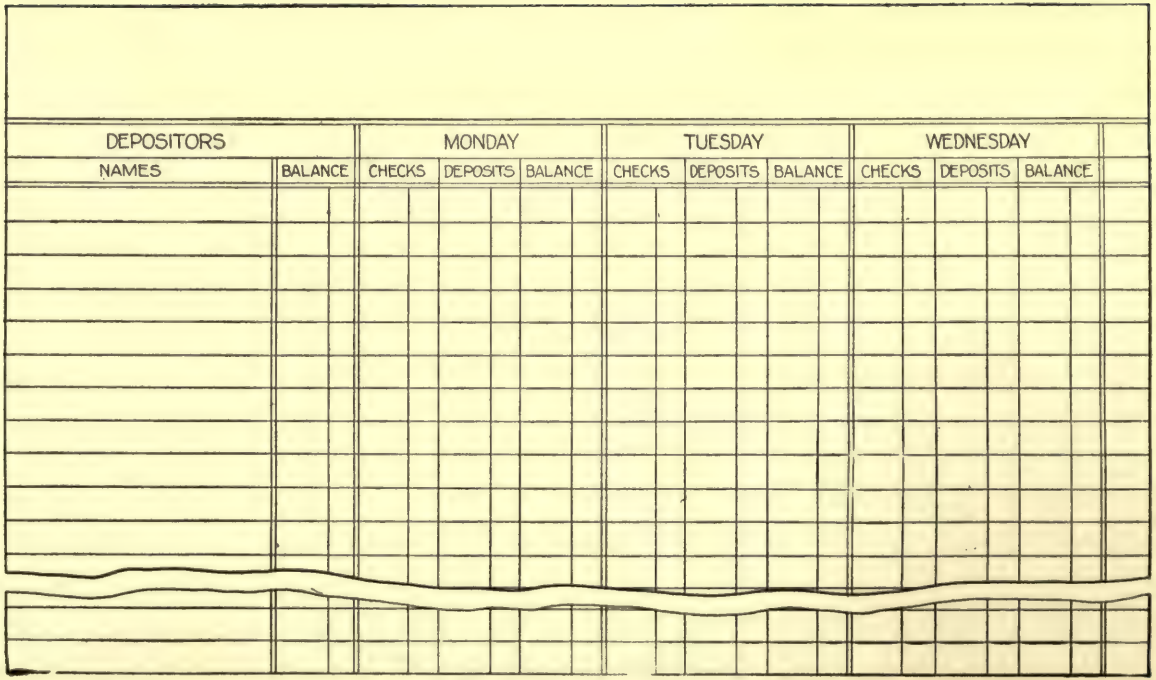
8. Tabular Ledgers

The tabular ledger is a development of the journal-ruled ledger. The chronological record moves from left to right instead of from top downward. Individual names are placed at the left, and the columns for recording information go from left to right by days, weeks, etc., with a column each for debits and credits, and at times one for the balance. This type of ledger is known familiarly as the Boston ledger. It is used to advantage under the following conditions:

1. When debits or credits must be recorded at regularly recurring times—for example, at the end of each month.
2. Where debits or credits for each period are few.
3. When it is necessary to prove work by totals.
4. When it is desirable to show the balance of each account.

The tabular ledger is especially useful as a:

1. Bank depositors ledger
2. Club members ledger
3. Rent register



Form 68. Bank Depositors Ledger

9. Bank Depositors Ledger

In a bank the books must be balanced each day, and the condition of each depositor's account must be known at all times. The ledger provides columns to show balances at the beginning of the day, deposits during the day, checks cashed during the day, and balances at the end of the day. The arrangement of the columns is illustrated in Form 68.

10. Club Members Ledger

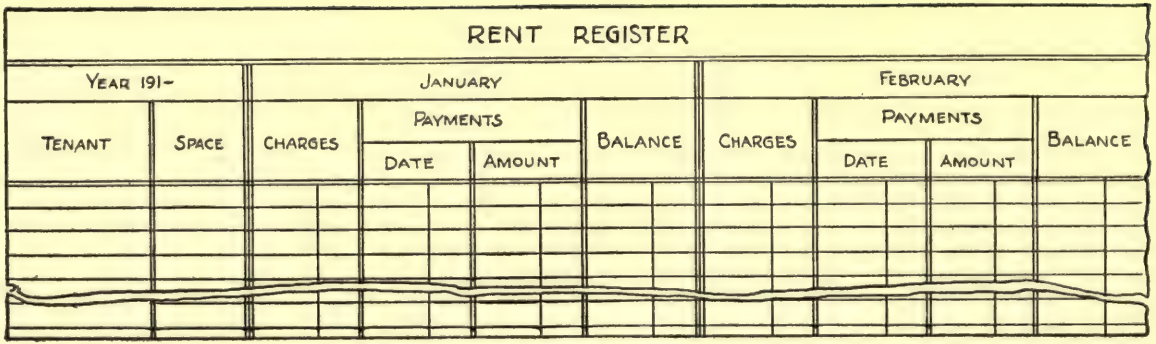
A set of records for a club ought to include at least a journal, a cash book, a general ledger, and a members ledger. The members ledger is described in Chapter XXXVII on "Clubs."

11. Rent Register

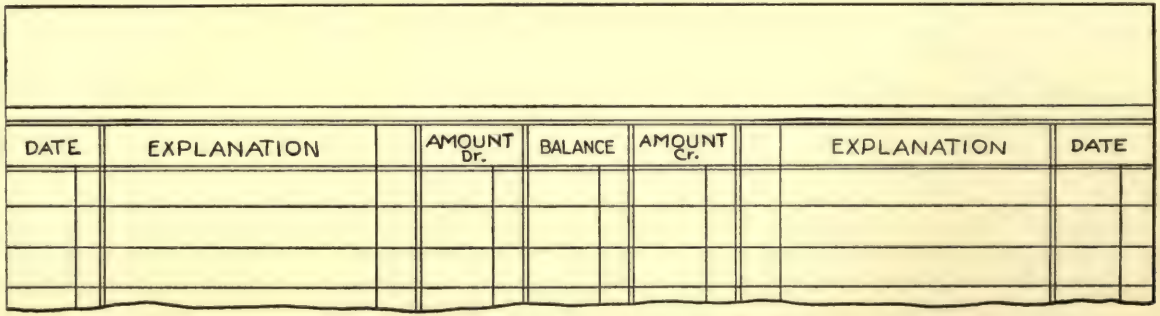
Rents are usually collected once a month. A proper record form will facilitate the keeping of accounts with tenants. Since the four conditions specified in § 8 are found, a tabular ledger will be useful. A rent register is shown in Form 69.

12. Ledger Account with Wide Explanation Column

One side of an account may require fuller information than is needed for the other side. For example, the debits to customers' accounts might require full ledger explanations to facilitate the preparation of statements, whereas the credits may not—as where the credit entries consist only of cash and discount items. In this case a wide explanation column on the debit side would be necessary and a narrow one on the credit side would be sufficient.



Form 69. Rent Register



Form 70. Ledger with Balance Column in Center

DATE	EXPLANATION	FOLIO	AMOUNT DR.	DATE	EXPLANATION	FOLIO	AMOUNT CR.	BALANCE

Form 71. Standard Ledger Form with Balance Column at Right

MONTH OF _____ 19____

SALES MAN	DATE		OWE	RECEIVED	DUE

Form 72. Special Sales Ledger

13. Ledger Form with Balance Column in Center

The form of ledger described in § 6 facilitates the taking of a balance if that is done only fairly often, but does not answer the purpose when the balance must be taken after every transaction, or when a balance is to be indicated upon the individual ledger accounts at the time of drawing a trial balance.

Therefore, to the form with debits and credits in the center is added a balance column, placed between the other two columns. This form answers the two requirements set out in the preceding paragraph, especially the first one. The second requirement is perhaps better met by Form 71, as explained in the next section.

When Form 70 is used, the first entry for each month, debit or credit, should be entered at least one line below the balance figure. In this way the transactions of a single month are shown grouped between the opening and closing balances.

14. Standard Ledger Form with Balance Column at Right

While Form 70 may be used in showing the balances at the time each trial balance is taken, yet, if this is the only reason for which a balance column is desired, it is perhaps better to place that column at the extreme right of the standard ledger form, where it will be out of the way until it is needed. (See Form 71.)

15. Special Form of Sales Ledger

The preceding form of customers ledger (Form 72) is ruled to provide a balance column. The balance at the beginning of the year or transferred from an old

account at any period should be placed in the balance column (showing the amount due) and not in either of the other columns. Credit balances are indicated by a pencil ring around the amount, or writing the amount in red ink.

A column is provided to indicate the salesman who has conducted the transaction.

The form submitted is about 10½ x 7 inches, and in duplicate. When a bill is fully paid, the original sheet is given the customer and the duplicate is retained. The original should not be taken out of the ledger without proper authorization. The duplicate should never be taken out except by the bookkeeper. At stated intervals the duplicates of accounts paid in full should be removed and filed away in alphabetical order.

Such a ledger would be of value to almost any kind of retail store except a department store. Because of the duplicate form of its pages its size would be too cumbersome for a department store with its large number of charge transactions. For such a store the method shown in connection with the use of the billing machine (Chapter XVI, §§ 9 and 10) is far more satisfactory.

16. Standard Ledger Form with Double Columns

In certain lines of business it is necessary that the books show all transactions as soon as they occur; even though the books may be out of balance, it is necessary to post from day to day. It is very difficult, of course, to prove the work under these circumstances, but the use of a standard ledger form with an additional column to the right of each amount column will prove helpful. (See Form 73.)

DATE	EXPLANATION		AMOUNT Dr.	BALANCE	DATE	EXPLANATION		AMOUNT Cr.	BALANCE

Form 73. Standard Ledger with Double Columns

DATE	NO. CERTIFICATE	NO. TRANS.	TRANSFER			DEBIT		CREDIT		BALANCE	
			BY WHOM	TO WHOM		NO. SHARES	AMOUNT	NO. SHARES	AMOUNT	NO. SHARES	AMOUNT

Form 74. Corporation Stock Ledger

When such a form is used, the totals of the debits and credits for each month are placed in their respective columns. New entries may then be inserted in the inner columns without disturbing the work of a previous period.

17. The Columnar Ledger

The columnar ledger may be used when it is desired to show in detail the items which compose the total of an entry. In a large business the columnar method may make use of summary ledger accounts supported by analysis sheets. In other words, when the classifications are numerous, summary accounts are supported by separate analyses, and when not numerous the ledger account itself is analyzed.

To show in detail the items which compose an entry, when classifications are not numerous, one or more columns may be placed alongside the one containing the item to be analyzed. The main column may, for example, contain the total debit to plant, which amount is subdivided in the analytical columns to show the items in detail.

Then again, accounts may be so closely allied that it is convenient to combine them in a single account. It may be desirable to display in a customer's account not only the open items he owes, but the notes as well. In this case there is one column for notes and one for account items. The same principle may be used to display values in two currencies: American and foreign. An account with income-producing property is another example. Two money columns would be carried on each side of the account. In the first col-

umn on each side would be recorded income or expense items, and in the second all capital items.

In some cases it is unnecessary to use both sides of the account, since either the debit or the credit entries may be infrequent. To columnarize only the active side is then sufficient. Detail items on the other side may be entered in red ink, or may be entered in black ink and a subtraction made at once.

18. The Private Ledger

In the private ledger are kept all accounts of a confidential nature. It is usually a bound book which can be locked, the key being held by a trusted employee or by the proprietor. When the private ledger is used the original entries are made in a private journal, which in form need not differ from the simple journal. Only entries for the private ledger are passed through it.

The accounts found on a private ledger depend more or less upon the desires of the management and upon whether the enterprise is that of a sole trader, partnership, or corporation. In general, the following are representative of private ledger accounts as found in many concerns:

1. Inventory—(Inventory entries furnish the keystone in the determination of a period's profit or loss.)
2. Capital
3. Surplus
4. Profit and Loss
5. Officers' Salaries
6. Bonuses
7. Financing Loans

These accounts are by no means the only ones found in private ledgers but they are typical.

When the private ledger is used, the general cash book and general journal must be ruled with debit and credit columns in which will be placed the private ledger entries. The general ledger contains a controlling account with the private ledger and the private ledger contains one with the general ledger. The two controlling accounts must at all times agree; a debit balance on one equaling a credit balance on the other. Each ledger is self-balancing. A trial balance can be taken from each ledger to cover its own accounts, but if a statement of the whole business is desired, the trial balance of the general ledger must be combined with that of the private ledger, the offsetting balances being eliminated.

When the books are closed, the employee in charge of the general books debits or credits the private ledger with any balances on the general ledger that concern profit and loss. The actual closing entries are made, of course, in the private journal. The results of the operation of the business for the period under consideration are not available to anyone who has not access to the private ledger.

19. Corporation Stock Ledger

A corporation stock ledger may or may not be ruled to provide money columns. Form 74 (page 258) provides money columns and will indicate the general form of any stock ledger.

The stockholder is charged with the par value of his stock at the time of subscription. His payments are entered in the amount column under "Credit." The

number of shares is shown in the shares column under "Credit." The amount columns show the amount paid and the balance owed. Every transfer is also provided for. This ledger contains the detail of the Capital Stock account on the general ledger and must in total agree with its balance.

20. Investment Ledger

When extensive investments in securities are made, the accounts connected with the investments may be handled in separate books. A separate ledger would be used containing an account with each security purchased. This ledger would be controlled by an account on the general ledger. A separate journal might be used in connection with such a ledger.

21. Ledger Control

The use of the controlling account has been considered fully in Volume I. What was said there should be reviewed by the reader at this time. It may here be pointed out again that ledger control is secured usually by comparing totals which have been obtained independently. Yet the accuracy of these totals is proved only in the aggregate. Errors in posting to the individual accounts from books of original entry would not be disclosed in the controlling account.

REVIEW QUESTIONS

1. Along what lines, from the viewpoint of constructive accounting, has the ledger developed?
2. When would a journal-ruled ledger be used?

3. What is the purpose of the Boston ledger?
4. Rule a suitable form of ledger in which to record the charge accounts of a retail store and a form of ledger to facilitate the preparation of customers' statements at the end of each month.
5. Under what circumstances would you recommend the use of a columnar ledger?
6. Rule a form to be used as a corporation stock ledger.

CHAPTER XXIII

CLASSIFICATION OF ACCOUNTS

1. The Two-Group Classification of Accounts

Groups of like transactions are given convenient names so that they may be interpreted easily and quickly, and so that a saving in labor may be secured in the amount of time required to determine into what classifications (groupings), transactions shall be placed best to picture business conditions. Whatever the classification may be, it is adopted for convenience only.

All accounts may be classified as follows:

1. Balance Sheet Accounts. These are accounts necessary to the preparation of statements of condition, statements drawn periodically to show condition as at a specific moment of time. Such accounts may be divided into the following groups:

(a) Assets
(b) Liabilities
(c) Proprietorship, or Capital

2. Profit and Loss Accounts. These comprise the nominal accounts, those necessary to the preparation of the statements of profit and loss, statements drawn periodically to show causes of fluctuation in proprietorship or capital for an elapsed period. Such accounts may be divided into the following groups:

(a) Income
(b) Expense

2. Scope of Functions of an Account

The results which the accounting system is expected to show determine the scope of the field served by any one account. An account with Plant, for example, may show the total amount invested in the productive plant, if this is the result the system is designed to attain. If it is desired, however, to analyze this account with Plant, to know the amounts invested in land, in buildings, and in machinery and equipment, separate accounts with each of these main items may be kept. These separate accounts are, of course, subdivisions of the Plant account, and for statement purposes may be shown as divisions of the controlling account of Plant, as:

1. Land and Improvements to Land:
   - (a) Land
   - (b) Improvements to Land
     - Sidewalks
     - Pavements
     - Gutters
     - Lawn
     - Graveled Yards
2. Buildings and Building Fixtures:
   - (a) Power Plant
   - (b) Shop A
   - (c) Shop B
   - (d) Warehouse
   - (e) Office Building
3. Machinery and Equipment:
   - (a) Power Plant
   - (b) Shop A
   - (c) Shop B

(d) Warehouse
(e) Office Building

The detail accounts are found in the ledger. For statement purposes the account balances of each group are added and the total is shown in one amount.

The details to be recorded can be determined only after the passing of a period long enough to indicate their relative importance. Only then may an accounting system be permanently established. In an existing business such details can be determined from the accounting forms in use. In a new enterprise such details must be collected from various sources by using whatever means are at hand. Liberal notes should be made and simple forms should be used upon which to collect data. The use of working balance sheets will disclose the principal features of the business. The facts secured in this manner may be supplemented by questioning persons connected with the concern—both owners and employees. The questions to be asked will be suggested by the information desired. In this manner, it is possible to bring out the peculiar features of the business and to ascertain which need special consideration.

When the conditions to be met have been brought to light and classified, the first step in designing the accounting system is to determine what accounts are to be kept. All transactions of a business may be properly journalized in the books of original entry —journal, cash book, sales book, etc., without setting up any accounts. But it is necessary to know what accounts are to be kept before records are made in the books of original entry, if the journalizations are to

express the debits and credits in terms of the accounts to which such debits and credits are to be posted later.

3. Classification Methods

Classification and subclassification proceed from that which is general to that which is more specific or particular. The more minute a classification is made, the more exacting that classification is going to be, and the more difficult the task of keeping up the records.

A classification may be applied merely to a general type of transactions, or it may in addition be applied to a number of subordinate types; it may be general or specific, or a combination of both. Expense, for example, is a general term. As such, it includes many kinds of expense. All expense may, perhaps, be included in one account called Expense, no regard being paid to the specific kinds. If, on the other hand, this Expense account should be classified into kinds of expense, an account would be set up with each kind, and after the specific accounts had been debited, any expense remaining unallocated would be charged to an account bearing the general title Expense.

Similarly a classification may concern a whole unit of the business organization, or it may concern the parts of this unit; for instance, the departments of a store. If we take the Expense account again for illustration, this account in the case of a store might be subdivided into accounts for departmental expense, following the divisions of the entire store into its separate parts or departments. For another example of this type, examine the classification in § 2.

Personal accounts, in general, may be handled most

conveniently if alphabetically arranged. As the business outgrows the capacity of a simple alphabetical arrangement, the classification may be expanded by increasing the number of index characters, employing, instead of the initial letter, the first two or three letters of the name for each subdivision.

Retail business usually operates within a limited territory. The needs of such a business are met readily by the alphabetical arrangement of customers' names. At times, however, classifications may be made geographically. The conditions existing, for example, in a wholesale business are reversed, usually, from those of a retail concern. Efficient management will then require that the territory covered be divided into districts. These divisions may be countries, states, cities, or even parts of a city. The system of handling customers' accounts will usually follow the general plan of business organization.

The numeric system of classification is another one that is sometimes made use of, though usually in connection with other classifications—Venture No. 1, Route No. 3, etc. The numeric system may be used also when the number of accounts with customers runs into the thousands, and the transactions into hundreds of thousands, sometimes even millions. In this case the ordinary alphabetical system becomes inadequate, and numbers are made use of instead of letters, a number being substituted for a name. The essential difference between the simplest alphabetical and the most complex numerical system is that the latter necessitates a separate and distinct index.

In any business, transactions are recorded in order

as they occur, or as they are concerned with definite units of time. This gives a chronological classification. Accounting records should facilitate the presentation of the facts which it is necessary to report at specified times to the management.

Of course, many combinations of these classifications will be met with; a certain combination may be most useful at one time; at another time an entirely different combination may be needed.

4. Variation in Size of Classification Groups

While there are certain classification groups which neither increase nor decrease in size, but remain constant—for example, those based upon periods of time, as a year, a month, etc.—most classification groups fluctuate greatly according to the particular group of transactions served. In the case of accounts receivable there is a constant change in the number of accounts. There may also be a change from time to time in the matter of sources of income; the specific accounts provided for income record may be insufficient. It is always advisable, therefore, to provide a Miscellaneous Income account to contain all items not classified otherwise. This same principle may be applied in many other instances. However, accounts of a miscellaneous nature should be avoided as much as possible.

5. Names Given Accounts in a Classification

The name of an account does not always indicate what should be charged or credited to it. The purpose for which the account is set up is a much better guide to follow. Therefore, name and purpose should be consid-

ered together. If the purpose for which an account is set up is not kept in mind when an entry is to be made, unlike elements are apt to be recorded in one account, and as a result the interpretative value of that account, as it concerns business progress or conditions, will amount to nothing. The entire purpose of the classification may be defeated.

6. Ledger Arrangement of Accounts

The arrangement of accounts in the ledger is often left to the individual ideas of the persons keeping them, or to chance. Yet there is every reason why such arrangement should follow some definite plan. The basic plan ought to be such that statement preparation will be facilitated.

If the accounts are not too numerous to be in one ledger, they may be arranged in the following manner:

Capital accounts
Asset accounts other than accounts receivable
Liability accounts
Profit and loss accounts
Debtors' accounts
Creditors' accounts

If a business is of considerable size, the debtors' and creditors' accounts are set up in subsidiary ledgers, each of these ledgers represented in the general ledger by a controlling account. In certain cases, debtors' accounts are classified and arranged according to the location of the debtor's residence, as, for instance, the customers' accounts of a public utility company (gas, water, etc.).

7. Numbering of Accounts

The numbering of accounts facilitates locating them in the ledger and saves time and effort in indicating accounts on vouchers, journal entries, etc.

Two general schemes are used:

1. The Universal System. This scheme is based on the maximum number of each class of accounts that the particular business is apt to need. It is the one most frequently used. Each account is indicated by a number, and the separate groups of the accounts, such as assets, liabilities, income and expense, are indicated by using a separate series of numbers for each, as 1-99, 100-199, etc. (See § 9, Classification No. 1.) Numbers not needed at first are left blank for future use. Each department is indicated by a letter, a given account in the various departments always bearing the same number. For example, advertising for department A in the classification referred to would be A1604, that for department B, B1604.

2. The Decimal System. Here the relationship of subheadings to main headings is expressed by means of numbers used decimally, each group classification running from 1 to 9, and subdivisions being expressed by the addition of a digit at the right, so that the analysis can be carried out almost indefinitely. A decimal point may or may not be used. Each number serves to allocate the account in the entire classification, and any later expansion can be made without a change of the numbers of existing accounts. While in practice both systems may work out with equal effectiveness, it will be seen that the decimal system is, at least in theory, more flexible.

8. General Classification of Accounts for a Manufacturing or a Trading Company

The following general outline shows how the ledger accounts of a manufacturing or a trading company may be classified:

1. Balance Sheet Accounts
   - (a) Assets
     - Fixed
     - Current
     - Deferred
   - (b) Liabilities
     - Fixed
     - Current
     - Deferred
   - (c) Proprietorship Accounts
     - Capital
     - Surplus
       - Reserved
       - Available for Distribution

2. Profit and Loss Accounts
   - (a) Income
     - Trade
     - Financing
   - (b) Expense
     - Operating
       - General
       - Manufacturing
       - Trading
     - Maintenance
     - Financing

The application of the general outline shown above to the ledger accounts of a business is illustrated in the following classification of accounts for a concern engaged in both manufacturing and selling. The classi-

fication illustrates general principles observed by accountants in the classification of accounts. Many questions raised by the study of the classification will be discussed in later sections.

CLASSIFICATION OF ACCOUNTS FOR MANUFACTURERS AND TRADERS

Balance Sheet Accounts

Assets

Fixed

- Tangible
  - Land and Improvements to Land
  - Buildings and Building Fixtures
    - Power Plant
    - Factory Building
    - Warehouse
    - Office Building
  - Machinery and Equipment
    - Power Plant
    - Factory Building
    - Warehouse
    - Office Building
  - Furniture and Fixtures
    - Power Plant
    - Factory Building
    - Warehouse
    - Office Building
  - Laboratory Apparatus
  - Investments
- Intangible
  - Good-Will
  - Patent Rights

Current

- Cash
  - Petty Cash
  - Cash in Bank

Notes Receivable
Accounts Receivable
Raw Material Inventory
Goods in Process Inventory
Finished Goods Inventory

DEFERRED
Organization Expense
Prepaid Insurance
Prepaid Interest
Prepaid Taxes

Liabilities

FIXED
Bonds Payable
Mortgages Payable
Plant
Other Real Estate
Chattel Mortgage on Machinery or Equipment

CURRENT
Notes Payable
Accounts Payable (Unpaid Audited Vouchers)
Accrued Interest Payable
Accrued Taxes
Accrued Wages

DEFERRED
Deposits and Advance Payments by Customers
Income Collected or Charged in Advance

Proprietorship Accounts

IF SOLE PROPRIETORSHIP OR PARTNERSHIP
Capital, for Each Proprietor
Reserves
Undistributed Profits

IF CORPORATION
Preferred Stock
Common Stock

Reserves
Surplus

PROFIT AND LOSS ACCOUNTS

Income

TRADE REVENUE
Sales of Finished Goods
Sales of Raw Materials

Expense

OPERATING
General
Officers' Salaries
Office Salaries
Traveling Expenses
Stationery and Printing
Telephone and Telegraph
Postage
Office Supplies
Insurance on Office Furniture
Heat and Light
Depreciation
Manufacturing
Productive Labor
Raw Materials Used
Freight Inward
Manufacturing Overhead
Indirect Labor
Factory Clerk Hire
Insurance on Machinery
Superintendent and Foremen's Salaries
Small Tools
Royalties on Leased Machinery
Heat and Light
Power
Taxes
Depreciation

- Trading
  - Salesmen's Salaries
  - Salesmen's Commissions
  - Salesmen's Traveling Expenses
  - Advertising
  - Freight Outward
  - Shipping Department
    - Shipping Clerks' Salaries
    - Packing Materials Used

MAINTENANCE

- Land and Improvements to Land
- Buildings and Building Fixtures
  - Power Plant
  - Factory Building
  - Warehouse
  - Office Building
- Machinery and Equipment
  - Power Plant
  - Warehouse
  - Factory Building
  - Office Building
- Furniture and Fixtures
  - Power Plant
  - Factory Building
  - Warehouse
  - Office Building
- Laboratory Apparatus

FINANCING REVENUE AND EXPENSE

- Revenue
  - Interest Received
  - Discounts Received
- Expense
  - Interest on Bonds
  - Interest on Notes and Accounts Payable
  - Discounts Lost
  - Brokerage Expenses

9. Detailed Classification of Accounts

The following three classifications not only illustrate the numbering of accounts, but also present variations in form from that shown in § 8.

The first classification shows the typical accounts of a manufacturing concern, numbered universally.

The second classification presents the typical accounts of a retail store, numbered decimally.

In the third classification the accounts are divided into two groups: balance sheet accounts and operating accounts. No attempt at numbering is made.

CLASSIFICATION No. 1—MANUFACTURING

Summary Accounts

100– 700 Assets and Deferred Charges to Profit and Loss
800–1200 Liabilities and Proprietorship
1300–2000 Profit and Loss Accounts

Detail Accounts

100–700 *Assets and Deferred Charges to Profit and Loss*

100 Land, Buildings and Equipment
Subsidiary accounts in a subsidiary ledger, numbered from 101–199 carry the details.
200 Materials and Supplies—Inventory
300 Customers
Subsidiary accounts in a subsidiary ledger or ledgers carry details.
400 Sundry Debtors
Subsidiary ledger carries details.
500 Notes Receivable
Subsidiary ledger or note register carries details.
600 Cash
601 Petty Cash
602 Bank Balance

700 Deferred Charges to Profit and Loss
- 701 Organization Expense
- 702 Prepaid Insurance
- 703 Prepaid Interest
- 704 Prepaid Taxes

800–1200 *Liabilities and Proprietorship*

800 Fixed Liabilities
- 801 Bonds Payable
- 802 Mortgages Payable

900 Floating Liabilities
- 901 Notes Payable
- 902 Accounts Payable (Unpaid Audited Vouchers)
- 903 Sundry Creditors
- 904 Accrued Interest
- 905 Accrued Taxes
- 906 Accrued Wages

1000 Capital
- 1001 Preferred Stock (stock ledger for details)
- 1002 Common Stock (stock ledger for details)

1100 Reserves
- 1101 Reserve for Depreciation—Buildings
- 1102 " " " —Machinery and Equipment
- 1103 " " " —Office Furniture and Fixtures
- 1104 " " Bad and Doubtful Accounts
- 1105 " " Discounts and Freight

1200 Surplus Account

1300–2000 *Profit and Loss Accounts*

1300 Raw Material Purchases
Subsidiary ledger and accounts used if necessary to distribute among types of product.

1400 Productive Labor
Subsidiary ledger and accounts used if necessary to distribute among types of product.

1500 Factory Expenses
- 1501 Superintendent's and Foremen's Salaries
- 1502 Indirect Labor
- 1503 Heat and Light
- 1504 Power
- 1505 Supplies
- 1506 Repairs and Renewals
  - 15061 Machinery and Equipment
  - 15062 Buildings
- 1507 Taxes
- 1508 Insurance
- 1509 Depreciation
  - 15091 Machinery and Equipment
  - 15092 Buildings
- 1510 Miscellaneous

1600 Selling Expenses
- 1601 Salesmen's Salaries
- 1602 Salesmen's Commissions
- 1603 Salesmen's Traveling Expenses
- 1604 Advertising
- 1605 Miscellaneous

1700 General and Administrative Expenses
- 1701 Officers' Salaries
- 1702 Office Salaries
- 1703 Traveling Expenses
- 1704 Stationery and Printing
- 1705 Telephone and Telegraph
- 1706 Postage
- 1707 Miscellaneous

1800 Trade Revenue

Subsidiary accounts for sales of different types of product.

1900 Miscellaneous Income
- 1901 Interest on Bank Balances
- 1902 Interest on Notes Receivable
- 1903 Discount on Purchases

2000 Miscellaneous Expense
- 2001 Interest on Borrowed Money

CLASSIFICATION No. 2—TRADING

Summary Accounts

1. Fixed Assets
2. Floating Assets
3. Fixed Liabilities
4. Floating Liabilities
5. Proprietorship
6. Revenues
7. Operation Expenses
8. Maintenance Expenses
9. Financing Revenues and Expenses

Detail Accounts

1 *Fixed Assets*

11 Tangible
- 111 Land and Improvements to Land
- 112 Buildings and Building Fixtures
  - 1121 Store
  - 1122 Warehouse
- 113 Machinery and Equipment
  - 1131 Store
  - 1132 Warehouse
- 114 Furniture and Fixtures
  - 1141 Store
  - 1142 Warehouse
- 115 Investments
- 116 Other Fixed Assets

12 Intangible
- 121 Good-will

2 *Floating Assets*

21 Current
- 211 Cash
  - 2111 Petty Cash
  - 2112 Cash in Bank
- 212 Notes Receivable
- 213 Accounts Receivable (Customers Ledger Control)

214 Stock Inventory, Purchases
2141 Dept. A
2142 Dept. B
215 Freight, Incoming
2151 Dept. A
2152 Dept. B
22 Deferred Charges to Profit and Loss
221 Prepaid Insurance (By departments if necessary)
222 Contracted Advertising (By departments if necessary)

3 *Fixed Liabilities*

31 Mortgages Payable

4 *Floating Liabilities*

41 Notes Payable
42 Accounts Payable (Creditors Ledger Control)
43 Accrued Interest Payable
44 Accrued Taxes
45 Accrued Wages

5 *Proprietorship*

51 Proprietors' Accounts
52 Reserves
521 Reserve for Depreciation of Buildings
522 Reserve for Depreciation of Machinery and Equipment
523 Reserve for Depreciation of Office Furniture and Fixtures
524 Reserve for Bad Debts
525 Reserve for Discounts and Freight
53 Surplus
54 Profit and Loss
55 Personal Accounts

6 *Revenues*

61 Sales and Gross Profits
611 Dept. A
612 Dept. B

7 *Operation Expenses*

71 General
711 Salaries and Wages

7111 Office Salaries
7112 Office Wages
712 Traveling Expenses
713 Stationery and Printing
714 Telephone and Telegraph
715 Postage
716 Store Supplies
717 Donations
718 Subscriptions
7181 Trade Journals
7182 Agencies and Associations
719 Exchange
71A Attorney's Fees
71B Taxes
72 Trading
721 Clerks' Wages
7211 Dept. A
7212 Dept. B
722 Rent and Light and Heat
7221 Dept. A
7222 Dept. B
723 Advertising
7231 Dept. A
7232 Dept. B
724 Insurance
7241 Dept. A
7242 Dept. B
725 Freight on Returned Goods
726 Allowances and Rebates
727 Bad Debts
728 Depreciation
729 Wrapping Materials
7291 Twine
7292 Paper
7293 Miscellaneous

8 *Maintenance Expenses*

81 Land and Improvements to Land

82 Buildings and Building Fixtures
- 821 Store
- 822 Warehouse

83 Machinery and Equipment
- 831 Store
- 832 Warehouse

84 Furniture and Furnishings
- 841 Store
- 842 Warehouse

9 *Financing Revenues and Expenses*

91 Financing Revenues
- 911 Interest Received
- 912 Discounts Received
- 913 Cash Discounts Received

92 Financing Expenses
- 921 Interest on Notes and Accounts Payable
- 922 Discounts Lost
- 923 Cash Discounts Allowed
- 924 Brokerage Expenses

CLASSIFICATION No. 3—MANUFACTURING

Balance Sheet Accounts

Cash
Notes Receivable
Accounts Receivable
Accrued Items Receivable
Inventories
Land
Buildings
Machinery
Tools and Plant Equipment
Patterns and Drawings
Office Furniture and Fixtures
Deferred Charges
Good-Will

Notes Payable
Accounts Payable
Accrued Items Payable
Mortgage Notes or Bonds
Capital Stock
Surplus
Reserves

OPERATING ACCOUNTS

Material Purchases
Ingredients (used in manufacturing processes)
Miscellaneous Material Purchases
Manufacturing Labor (subdivided into main subdivisions of manufacturing processes)
Manufacturing Expense (subdivided in any way desired but at least into:
  Superintendence
  Indirect Labor
  Miscellaneous Supplies
  Power
  Taxes
  Insurance
  Plant Depreciation
  Miscellaneous
Salesmen's Salaries
Salesmen's Expenses
Advertising
General Expense
Administrative Salaries
Sales Discounts
Interest Paid
Dividends

Sales
Miscellaneous Sales
Purchase Discounts
Interest Received

10. Account Grouping to Facilitate Statement Preparation

In any classification of accounts, the primary accounts should provide, as far as possible, the information needed in setting up condensed statements of financial progress and condition. Detail accounts grouped in the same order in the ledger as required in

the statements aid the bookkeeper in drawing up his statements quickly as well as accurately. This relation between the ledger and the statement grouping is shown below:

BALANCE SHEET

Assets	*Liabilities*
Fixed Assets	Fixed Liabilities
Permanent	Current Liabilities
Intangible	Proprietorship
Current Assets	If Partnership:
Deferred Assets	Partners' Capital
	Reserves
	Undistributed Profits
	If Corporation:
	Capital Stock
	Preferred
	Common
	Reserves
	Surplus

PROFIT AND LOSS ACCOUNT

Manufacturing

Manufacturing Operation Expenditures	Cost of Production (to balance) (Omit General Overhead)
Maintenance Expenditures	

Trading

Cost of Production (Omit General Overhead)	Trading Revenues
Trading Operation Expenditures	
Gross Trading Profit (to balance)	

Profit and Loss

General Operation Expenditures	Gross Trading Profit
Maintenance Expenditures (General)	
Net Trading Profit (to balance)	
Financing Expenditures	Net Trading Profit
Net Profit (to balance)	Financing Revenues
	Net Profit
Reserves	
Undistributed Profits or Surplus or Both Partners' Capital (if partnership)	

Accounts arranged upon the ledger in conformity with these two rough schedules will facilitate the preparation of practically any form of balance sheet or statement of profit and loss. Two statements suggested for use for credit purposes are the balance sheet and profit and loss statement recommended by the Federal Reserve Board.

REVIEW QUESTIONS

1. What is meant by a "classification of accounts"?
2. Show in outline form, the accounts of a manufacturing company with the operations of which you are acquainted.
3. How may accounts be arranged upon the ledger?
4. What is the purpose of numbering accounts?
5. Construct a classification of accounts for a real estate agent who collects rent for clients—for which service he receives a commission—and who collects rent from buildings owned by himself. He also from time to time purchases plots of undeveloped land which he develops and sells, usually but not necessarily, in the form of lots.

CHAPTER XXIV

STATEMENTS

1. Constructive Importance

Statements show the financial results of transactions recorded in the books of account during a certain period. Statement designing is a most important phase of constructive accountancy. Accounting systems are devised and operated entirely from the managerial point of view, and there are many business facts of importance, as recorded in accounting systems, which must be presented to the management almost wholly by means of statements. Whatever classification of accounts is used on the ledger, many questions of interest concerning a business will remain unanswered unless statements are prepared to answer them.

After the adjusting and closing entries have been posted, the resulting totals and balances must be rearranged in statement form. They must be carried into the statement accurately, must be set forth with careful regard to the importance of different classifications, and must be presented in as simple a form as is possible, at the same time giving all necessary details. Since the significant facts for one business may differ from those for another, the skill and ingenuity of the accountant are put to the test of showing these facts in the final form of the statement in the clearest and most logical manner possible. Unless laws or the rulings of official commissions require statements in a prescribed form,

the significant business facts of an enterprise may be presented in any way that seems desirable.

In addition to constructive ability, the designer of statements must possess some technical knowledge of type, display, and paper, if the full effect is to be secured.

The statements presenting financial facts to the management are closely associated with the classification of accounts adopted. The statements desired, therefore, should be determined and planned before the classification of accounts is adopted and before the rulings of the books are designed. This close association between statements and the classification of accounts has been referred to in Chapter XXIII.

2. Exhibits, Schedules, and Statements

For convenience of reference accountants, in making up reports, generally designate the balance sheet and statement of profit and loss as "Exhibit A" and "Exhibit B" respectively, and the grouped details on separate sheets explaining or supporting any item or items in them as "Schedules." If further figures are needed to support an item on a schedule, these are usually presented on a separate sheet which is technically termed a "Statement."

Speaking more generally, an exhibit is a statement or presentation giving a complete view of certain grouped facts. The schedule presents the details that support one or more of these facts in the group and the statement elaborates the schedule. Every result to be obtained from a set of business transactions as recorded may be presented by means of exhibits, schedules, and statements.

It is difficult for one untrained in accounting to get a complete view out of a mass of details. It is often impossible to present a complete view and many details in a single exhibit without making it too cumbersome, covering perhaps three or four separate sheets of paper. A better plan is to give the general facts by means of a condensed exhibit on a single sheet, and support that summary statement by one or more detailed schedules which may be examined by one who is interested. On the balance sheet, for example, accounts receivable would not ordinarily be stated in detail, but merely the total would be shown. This total would in all probability refer to a supporting schedule of accounts receivable given in detail. The item on the exhibit might be as follows: "Accounts Receivable (per Schedule 1), $53,000." In a profit and loss statement, sales may be shown in total, and many be supported by a schedule showing the detailed make-up of this total.

3. Basic Statements

The balance sheet and the profit and loss statement are the two most important accounting statements. To these all others, of whatever nature, are subsidiary. The balance sheet shows the concern's financial condition as at a certain moment of time, usually the close of the last day of a month, half-year, or year. It is a mirror which reflects the condition of the business as a whole at that moment. It presents the assests of the enterprise valued on the basis of a going concern, together with the offsetting advances made by creditors, known as liabilities, and with the proprietorship interest which makes up the balance. Care must be taken

not to confuse the balance sheet with the statement of assets and liabilities, or the statement of affairs. A statement of affairs is a special form showing the financial condition of an insolvent business. A statement of assets and liabilities is an informal type of balance sheet prepared from accounts not kept in balance under a double-entry system of bookkeeping.

The profit and loss statement sets forth financial progress or retrogression for a certain elapsed period of time. It is a review of what the business as a whole has done in securing financial results, showing the gross returns—or gross income—together with all the costs offsetting such returns, and the net balance of returns over the costs. The net balance of returns over costs is net profit, and any net balance of costs over returns is net loss. Volume I of "Business Accounting" contains a detailed discussion of these two basic statements. In Volume IV a more advanced discussion of these will be found.

4. Account Form versus Running Form of Statement

Financial facts are presented usually in one of two forms of statements:

1. Account Form. The account form of statement is similar to the ledger account in appearance. To an accountant it is easier of interpretation than the running form. It is simpler for him to comprehend the relation between the facts when they are thus presented. For example, current assets may be more easily compared with current liabilities in the account form of balance sheet than in the running form of balance sheet. The account form of statement has the disadvantage,

however, that it is not so readily understood by the layman.

The paper must be wider than for the running form; this may require the use of a wide-carriage typewriter. The purchase of such a machine may not be an economical investment because of its limited utility.

2. Running Form. The running form of statement is growing in favor because of its general ease of comprehension as well as its simplicity of preparation. It is usually typed on an ordinary typewriter, on the usual letter-sized paper. The running form presents the items in an orderly arrangement, proceeding from the top of the sheet downward. In the balance sheet, for example, the assets are placed above the liabilities and run the full width of the paper. The capital, which is the excess of assets over liabilities, appears at the bottom of the sheet and is determined by subtracting the liabilities from the assets.

When a form has once been adopted it should be changed only after careful consideration, because every change interferes with the comparison of succeeding statements with former ones.

5. Periods of Time Covered by Statements

Yearly statements are of great financial value whether or not statements for shorter periods have been prepared. It is customary, moreover, in all lines of business to secure a yearly statement of profit and loss and a yearly balance sheet. During the course of a year it is usually possible for a business to feel the effect of all regular business fluctuations. Statements covering shorter periods also are useful: half-yearly

statements, for a business which has two main seasons a year; quarterly statements, as is required by government authorities in the case of certain businesses; and monthly statements which are widely used.

Monthly statements of profit and loss and balance sheets are almost as common as yearly statements. If physical inventories cannot be secured each month, the system of accounts should be such that book inventory figures may be secured for statement purposes. These book figures later, at the year's end, will be corrected by actual physical inventory figures. Where the percentage of gross profit is stable, book inventories are sufficient. Where the percentage of gross profit on certain lines of goods is fluctuating, it may be necessary to take physical inventory as to them, and to add this total to the approximate values of the other goods as determined by the fixed percentage of gross profit.

Weekly statements are rare, yet in the case of summer enterprises, running as they do for but a few months, weekly statements would be of great value. Needed adjustments and changes pointed out by such statements might be introduced before the summer season was over, and a season's loss changed to a season's profit.

6. Use of Percentages in Statements

At times the relationship existing between amounts is best set forth by percentages. Yet unless the use of percentages is understood by those who examine statements, they may be useless and it may be a waste of time to prepare them. Percentages are used chiefly in statements relating to business progress, although they

may be used in statements relating to condition; for example, to show the relation between current assets and current liabilities.

Percentages based on cost are usually more accurate for selling price purposes than percentages based on selling price. The selling price fluctuates and may have no relation at all to the real value involved. The expenses remain nearly constant regardless of price, and the unit cost may be shown accurately by a proper accounting system. When the basis of calculation, namely, the actual expenditure of time and money, is more constant, the tendency toward error is accordingly lessened.

7. The Units Used in Statements

Statements are sometimes worked out so that the facts are presented in relation to units of product. This is truer in manufacturing than in trading enterprises. These units may be common ones in use, familiar to almost all persons concerned with weight, liquid and dry measure, etc., or they may be units not common in use, as the kilowatt-hour, the thermal heat unit, etc.

8. Comparison of Statistics

Comparison may be made of the condition of the business as at two or more different dates, or the progress for two or more different periods. It may involve departments, branches, territories, salesmen, one business with another, etc. The essential point is that comparison must be of like things or units. A day cannot be compared with a week. One month in one year ought usually to be compared with the same month

of the past year and not with another month of the present year, because conditions from month to month each year may vary greatly, whereas conditions of a present month may be more nearly similar to those of the corresponding month of the preceding year.

On the other hand, all facts tending to interfere with results in one period as compared with another must be considered. The sales in a certain town in July, 1918 may have been greatly in excess of sales in the same town for July, 1917. The proximate cause for the abnormal increase may have been a circus, or the weather, or something else. Without taking such facts into consideration, any comparison made may be misleading.

Comparative statements ought to give emphasis to current facts, which are those of immediate importance, and subordinate those of the past. In a comparative statement current facts accordingly are generally placed in the first columns, and the past facts, presented for purposes of comparison, are placed in columns to the right.

9. Cumulation of Statistics—Graphs

The principle of cumulation is generally made use of in statements relating to progress, to show fluctuations. If the fluctuation is rapid it is necessary to shorten the unit period of examination so that closer supervision will result. Furthermore, in addition to picturing results over a short period, such as a day, or a week, it is desirable to combine these daily or weekly results into monthly and yearly results. If results are cumulated day by day, the daily results ought to be

cumulated each week to date, and then each month to date.

In this connection, diagrams, charts, and graphs are all valuable. Such devices are employed to portray graphically particular phases of business, mainly for the purpose of comparison. A graph saves the reader valuable time and sets out the relation of facts much more clearly than does an ordinary statement. A graph will show development of certain business tendencies over a long period of time and makes possible a quick comparison of the present condition with a former condition. For example, a graph showing month by month the gross sales, the cost of goods sold, the expenses of handling, and the overhead expenses may be very valuable. Graphic methods are increasingly used in many forms and their study will repay any business man.* (See Volume III.)

REVIEW QUESTIONS

1. What do you regard as the proper method of presenting a balance sheet as to form and as to arrangement of the items?
2. Prepare for a $50,000 manufacturing corporation a specimen form of balance sheet which will clearly set forth the financial condition of the concern.
3. What relation exists between the financial statements and the accounting system of a concern?
4. Distinguish between the account and the running form of statements. When should each form be used?
5. State your opinion on the use of diagrams, charts, or graphs. State how you would prepare curves showing the monthly

*Anyone having occasion to prepare charts for the presentation of facts will find a very useful and up-to-date work on descriptive presentation in "Graphic Methods for Presenting Facts," by Willard C. Brinton.

results accomplished, and what particular sets of figures you would use as conveying the most important information working up to the following totals:

Gross Sales.....	$320,000	per	annum
Cost of Goods Sold...	260,000	"	"
Expenses of Handling.	30,000	"	"
Expenses, Overhead...	10,000	"	"

CHAPTER XXV

EXPENSES

1. Classes of Expense

It is a fundamental accounting principle that a very careful distinction should be made between all items belonging to the production activities of a business and those which may properly be charged against the selling or commercial end of the business. Each phase of the business activity should and must bear its proportionate share of certain expenses, found in every concern, which cannot be allocated at the time they are incurred to any one unit of product. In order not to go too far into a subject which is difficult, it may be well to take up merely a general consideration of three classes of such expense, following the division of the subject as indicated:

1. Purchasing department expense
2. Administrative expense
3. Sales department expense

2. Purchasing Department Expense

The expense included under this caption may properly be considered as that of the buying and receiving departments. In other words, this department expense account summarizes the cost of securing, storing, handling, and delivering materials and supplies to the departments. The expense so incurred must be dis-

tributed. As a rule it is most equitably distributed over the various departments which make use of its services, on the basis of the value of the stores withdrawn. One department, for example, may withdraw items amounting to $1,000 in value, whereas another department may withdraw during the same period of time materials to the value of only $100. It is evident, therefore, that the service rendered in the first instance is much greater than in the second case, and the cost of this service should be distributed in the same proportion.

As many subdivisions of this expense account may be made as are deemed desirable, and if thought necessary, each subsidiary account may be carried in a subsidiary record. This record fits into the system in such a way that at the close of each accounting period a detailed summary of these expenses may be readily made so that they may be distributed over the various departments.

3. Administrative Expense

The class of items included in the term administrative expense covers the salaries of the chief executives, their traveling expenses, and charges of such a general character that it is impossible to say whether or not they belong to, say, the factory end of the business or to the sales department. At any rate it is safe to assume that the production end of the business and the selling end should each bear its share of the administrative expense according to some more or less definite although perhaps arbitrary plan. The distribution of this expense should take into account the amount of time the administrative employees devote to the production and to the selling activities respectively.

4. Selling Expense

All expenditures incurred in the shipping and distribution of the product dealt in are a proper charge against the selling department. When a sales or strictly commercial office is maintained, its operating expenses are chargeable to selling expense.

Selling expense may be classified under the following chief heads: salesmen's salaries and commissions, salesmen's traveling expenses, advertising, cost of samples, freight outward, allowances made to customers, postage, printing, stationery, telephone, telegraph, messenger service, office salaries, depreciation on the sales office furniture, towel service, drinking water and ice, supper money for sales office employees working overtime, convention expenses, and association dues and expenses. As many subdivisions of selling expense may be made as desirable, and here also each subdivision may, if desirable, be kept in a subsidiary record, the operation of which is such that a detailed summary may be made at the close of each accounting period.

The sum of all these charges to the selling department and the proportionate share of the administrative expense give the total of what may be considered as commercial burden. Where production is concerned with several lines of goods, it is necessary to find some method of distributing the selling burden to each class of goods handled. There are several methods which may be used.

5. Ratio of Selling Expense to Sales

One plan of distributing the selling burden is based on the ratio of selling expense to sales. It is perhaps

the one most frequently used. It is argued that the expenditure in time and effort is proportionate to the sales. The following illustrates the method of calculation:

SELLING EXPENSE

	April, 1919
Commissions	$ 900.00
Advertising	100.00
Salaries	2,600.00
Samples	60.00
Traveling	50.00
Allowances and Claims	400.00
Total Expense for the month	$4,110.00

Total Sales for the month:	
Dept. A	$ 7,000.00
Dept. B	11,000.00
Dept. C	12,000.00
	$30,000.00

Distribution of Selling Expense for month:			
Dept. A	23.33%	of $4,110.00	$ 958.86
Dept. B	36.67%	of 4,110.00	1,507.14
Dept. C	40.00%	of 4,110.00	1,644.00
	100%		$4,110.00

6. Ratio of Selling Expense to the Cost of Production

Another plan of distributing the selling burden is based on the ratio of selling expense to the cost of production. This method is advocated by some accountants, but does not seem to be as sound as the preceding

plan. In brief, the idea is as follows: If, for example, the selling expense of goods is found to be 20% of the total production cost, the selling cost of each line of goods is arrived at by adding 20% to its production cost. The total selling expense is thus distributed among all the departments or among the various lines of goods handled.

7. Selling Expense as a Rate per Pound or per Ton of Product Shipped

In certain lines of business the value of the product varies closely with the weight shipped. In such a case, it is a common practice to express the selling expense as a rate per pound or per ton of product shipped, the selling expense rate being based on normal trade conditions.

8. Disposition of Selling Expense

In all cases selling expense should be closed out eventually to profit and loss. Nearly every business has more or less selling expense, and it should be kept to the productive minimum. The financial report should contain a statistical summary of the selling expense—amounts, percentage of increase and decrease, and explanation. Upon whatever basis the figures may be compiled, they should give a good index of sales department efficiency from month to month.

REVIEW QUESTIONS

1. Into what classes would you divide, and how would you dispose of, purchase department expenses?

2. What are administrative expenses? How should they be handled and disposed of?
3. Outline a classification of selling expenses for a concern manufacturing toys.
4. In what ways may selling expenses be distributed to each of the various classes of goods manufactured and handled?

CHAPTER XXVI

LABOR AND SALARIES

1. Importance of Labor Records

The cost of services rendered by both salaried officers and wage earners is one of the principal items in any business. It must be determined carefully in order that accurate costs may be secured. A just proportion of labor costs must be distributed to the various units of product manufactured, if the concern is a manufacturing company — all the labor directly or indirectly engaged in production. A plant may be considered, for example, which has both a work force and an office force.

Because labor is an important element of cost in nearly all enterprises, and because labor records are frequently used as a convenient place in which to cover up thefts of cash, it is important that the distribution of labor costs be made as accurately as possible. To secure a correct distribution, proper reports are necessary. With this end in view, the following points demand attention:

1. How much is paid each person?
2. What kind of service has each person rendered and to what account or accounts should it be charged?

Without attempting to present a detailed solution of any particular problem, consideration will be given only to constructive accounting principles to be borne in

mind when attacking the problem of labor and salaries, whether the enterprise in question be that of manufacturing or trading. If a manufacturing concern is being examined, as has been assumed, it is usually desirable to handle salaries and workmen's pay separately at all stages.

2. The Rate Card

An employee's rate card should be made out for each employee in every concern of any size. This rate card presents a running record of any and all changes affecting an employee. No entries should be made on this record, either additions or changes, without proper authority. This authority should always be in writing. In other words, all rate changes should be evidenced by a voucher signed by a proper party, and perhaps approved by an officer of the concern.

3. Pay Period

All possible saving of labor in the handling of the pay-roll should be secured. With this end in mind, it is more efficient to pay four times a month than to pay once a week. The need of carrying an extra ledger account to record accrued wages when the end of the month does not coincide with the end of the week, is eliminated, and the clerical labor is much reduced.

According to the four-times-a-month plan, the pay period ends on the eighth, sixteenth, twenty-fourth, and last day of the month. The pay-day is placed three or four days after the close of each pay period, so that sufficient time may be secured to make up and check the pay-roll accurately.

4. Methods of Payment

Many general methods or plans of paying wages may be named, among which are the following:

1. Time basis. This gives a flat rate per hour or day.

2. Piece rate. This gives a flat rate per unit of product produced.

3. Premium basis. This gives a flat rate per hour, with a premium for a saving in time.

4. Bonus system. This resembles the premium system, but provides the increase in pay by increasing the hourly rate as efficiency advances.

5. Differential piece-rate plan. A piece rate is fixed but if the production in a specified time exceeds a specified quantity the piece rate is increased on either the whole production or on the excess over the specified production.

6. Taylor system. A rate is fixed as a standard time for a job, and piece rates are based on that standard with higher rates for increased efficiency, and lower for decreased efficiency.

7. Towne plan. This divides an establishment into departments, and, having determined certain items of prime cost in each department, gives to the men in it a share of any gain they may make by reducing the labor time, decreasing waste, etc.

8. Halsey system. The standard is the average time in which a job has been done, and, if that time is lowered, wages for the time actualy consumed, plus a percentage of the wages of the time saved, are paid.

9. Rowan system. A standard time rate is fixed, and a time for the performance of the job. If working

time be cut, the rate of pay increases by the same percentage.

10. Emerson system. A standard time rate is set, and a time for the performance of the job at 100% efficiency. A bonus on the time rate starts at 66 2/3% efficiency and increases to a maximum of 20% at 100% efficiency. Above 100%, efficiency is rewarded by pay at the maximum rate for working time, plus standard pay for the time saved.

An examination of this list of payment schemes—bases upon which computations of earnings are made—shows that the subject is a complicated one, and all that may be stated here is that the system to be preferred is a matter of individual taste and circumstance. One thing, however, is most desirable—and the simplification of pay-roll routine has now made it practicable—namely, that employees on a time basis should be paid each pay-day on a day rate basis, and on the first of each month they should be paid the difference between the day rate and what they have earned on the other basis that may be in use. Sometimes, this double payment date may not be desirable; if so, the day rate payment should be placed in a white envelope, and the extra pay in a colored envelope, because of the psychological effect produced on the workmen who see a comrade secure a colored envelope.

5. The Original Records

There are usually two labor records which may be considered as original in character. These are:

1. Time clock cards or the gate record. These record the time employees enter and leave.

2. Job cards or work tickets. These are filled out to show how the time of the employees has been used and how it should be distributed to orders.

Each of these records has a particular purpose. Together they present the necessary data which when properly assembled will give the correct labor costs.

Consideration of the labor question, as has been indicated already, will be confined as far as possible to the work of recording the labor and salaries expense as such, and not with its distribution to the various expense and cost accounts, the latter being considered in Volume III.

6. The Time Clock System

As was mentioned in the last section, the time clock cards or gate record may be considered as one of the two original labor records. The primary purpose of such a card is to record the total amount of time worked by each employee in order to give a basis for computing the pay-roll. In some cases, however, the pay-roll is made up from the job cards.

The methods and devices used to record the working time of employees are many and a discussion of all of them would be neither necessary nor profitable. One is practically as good as another, the crux of the whole matter being the accuracy with which they are carried out. It is more essential here to consider the results to be secured than how to secure them. To that end one simple illustration is sufficient.

The best time-keeping system for a concern of any size is one based on the use of card time recorders. All employees should be required to "ring in" on a time

clock upon their arrival at the place in the morning, "ring out" when they go to lunch, "in" when they return from lunch, "out" again at night, "in" for extra time and "out" for extra time. In many places it will be found unnecessary for employees to ring out and in at noon and out at night, because every employee must be at work until the closing whistle has sounded.

A time recorder is a clock with a recording mechanism attached to it, for noting accurately the working time of employees. There are many forms of time recorders, but since the general principles involved in their use do not differ in many respects, one from another, it is sufficient to describe one type only. Each time card clock should be supplemented by two racks, one designated as the "out rack" in which cards of the employees are kept when not at work, and the other the "in rack" to contain the cards of employees at work.

Each time card should bear the name or number of the employee, and all payments made by the company should be based upon the time indicated upon it, except of course in the case of piece-work or premium work.

Someone should always be at the clocks when employees are ringing in and out to guard against a fraud or "beating the clock." As soon as all employees are in in the morning, the clock cards should be collected and sent to the timekeeper's office for entry of the time for the previous day on a time sheet.

At the end of the pay period all cards are collected so that the pay-roll may be made up. The total amount for the various kinds of work done—day, regular, overtime, piece-work, etc.—as shown on the time sheets, is entered on the card after extensions are made and ad-

vances deducted, and the pay-roll proper is then made up. Each card will show the kind of pay each employee is to receive, and the total amount he is to receive. The number of the time sheet which shows the total amount to be transferred to the time card is entered on the card.

At the time of collection, new cards are placed in the racks for use during the next succeeding period. On pay-day each employee will find in his pocket in the "out rack" two cards, one being his current time card, and the second being the time card previously collected and extended as above described. The back of the card contains a form of receipt which the employee should sign and turn in to the cashier, or to the paymaster, or to whoever it is who makes the pay-roll payments.

7. The Job Card

The second source of labor cost information was found to be the job or work cards. These cards show the amount of time spent by the various employees on specific work. By this means a check is secured on labor efficiency through comparison of the time with the time recorded on the clock cards; also data are secured for calculating the labor cost of operations. A consideration of this phase of the subject leads immediately into cost accounting. Nothing more, therefore, will be said about it here.

8. Pay-Roll Routine

It was mentioned above that the primary purpose of the clock card is to record the total amount of time worked during each pay period so that a basis may be

secured upon which the pay-roll may be computed. From an accounting point of view, it is necessary to ascertain the amount due each man day by day. Therefore, the information recorded on the time clock must be recorded and summarized by pay periods upon what may be considered as time sheets, and later from the time sheets it must be transferred to the pay-roll, which when properly vouchered becomes authority for the drawing of a pay-roll check.

The time sheet contains columns for the department, clock number, name or number of employee, and columns for each day of the pay period subdivided into regular time and overtime. Other columns summarize the regular time and provide for the wages due; and they also summarize the overtime in the same way, providing also for the wages due on that account. Finally, the total amount payable to each man is shown.

These time sheets are of value for purposes other than that of collection of time for the pay-roll. They may be used also as:

1. A check on the factory against the time clocks.
2. A means of showing the disposition of the time of each employee for each pay period.
3. A labor distribution sheet from which may be compiled various costs and statistics relative to the amount of time expended on the different kinds of labor—day-work, overtime, non-productive work, piece-work, etc.
4. Part of a self-balancing record to detect errors arising in connection with turning in and recording the time tickets. Pay-roll figures are distribution figures. The total labor as

shown on the pay-roll must agree in amount with the total labor as distributed against product.

The pay-roll sheets will cover the same period of time as that covered by the time sheets. Totals from the time sheets are carried over onto the pay-roll sheets, the total regular time and regular wage as one amount, the total overtime and overtime wage as another amount, and the total bonus as a third amount; each entered in a separate column opposite each man's name. Of course, it must be remembered that the bonus is something entirely independent of time and usually is not entered on the pay-roll from the time sheet. The pay-roll will contain also columns for deductions of various kinds. Finally, the total amount payable is taken care of in a column at the extreme right of the sheet.

When a pay-roll is completed and checked, the following bookkeeping routine may take care of its subsequent progress through the organization.

1. It may be attached to an account payable voucher which contains a classification of the various accounts against which the amount is to be charged. The payment of this voucher is then properly authorized, and the pay-roll check drawn for the amount, after which the voucher is entered in the account payable register, as a credit against the Pay-Roll account and a debit against the various expense accounts. Subsequently, entry may be made from the voucher to the various factory ledger accounts and to the different cost records. The pay-roll check is passed through the cash book.

2. Part of the above procedure may be eliminated.

The pay-roll may be entered direct in the cash book, the Pay-Roll account being debited, instead of being attached to an account payable voucher. Subsequently, an entry is made, possibly through the journal, to distribute the amount of the Pay-Roll account against the various departments, units of product or processes, giving each its proper proportion of direct and indirect labor.

9. Padding the Pay-Roll

Padding the pay-roll is a fruitful means of peculation and one against which the accounting system followed should particularly guard. The risk of fraud should be reduced to the lowest possible point. To this end, two measures may be made use of:

1. Arrange so that a fraud will require the collusion of as many persons as possible. For example, one person may be given the duty of figuring the pay-roll, another that of counting the money into the pay envelopes—if checks are not used for payment—and a third person that of delivering the envelopes to the employees. This suggestion is a matter of system entirely. The method of pay-roll preparation should be such that an independent check is given at each step by someone other than the persons in direct charge of the work.

2. Comparative statistics should be made use of frequently as a means of uncovering pay-roll padding, should it exist in spite of these precautions. If a person is familiar with conditions existing in similar lines of endeavor—prices of raw material, wage rates, etc.—he is in a position to know whether or not his gross or net profit is smaller than that in these similar lines,

and if this difference is due to a high labor cost, analysis may disclose the padding of the pay-rolls.

10. Construction Work

A few remarks concerning construction jobs may not be amiss. In every case local conditions must be carefully noticed, and local laws followed. The local labor unions may have certain rules that require consideration. In other words, it may be impossible in Minnesota to follow the same procedure used in New York.

The use of the time clock is usually unsatisfactory. Instead a timekeeper may be employed and given a group of men or a certain district within which he is responsible for the time-keeping. Each workman may be given a brass tag bearing his number, which he will show to the foreman each morning when he comes on the job. Upon showing this tag the foreman gives the workman a time card so that the latter may keep track of the time he spends each day upon the various tasks allotted to him. These time cards are turned in each evening and placed in the hands of the cost department at the earliest possible moment.

An employment record of each workman, carefully kept up to date, should be found in the office. This is essential to the smooth working of each job. For example, a construction company engaged on a large building project may be employing some 10,000 men. These men are scattered over a number of square miles of territory. They may be placed in groups, a timekeeper with each group. In the local central office is found a complete employment record of each workman,

so that he can be located at a moment's notice. If a workman is transferred to another group the office should be notified of the transfer at once, so that it in turn may promptly notify the timekeepers concerned in the transfer. Otherwise, not only will it be impossible to find this transferred person readily, but the transferred workman when pay-day comes will find that his pay envelope contains less money than it should contain, because the timekeeper of the first group reported him absent after he had been transferred, and the timekeeper of the second group, to which he had been transferred, failed to report him present. As a result, the pay records will be in a tangle and the workman dissatisfied.

11. Salaries

Nothing has been said directly concerning salaries except in the first section of this chapter, where a remark was made to the effect that it is usually desirable to handle salaries and workmen's pay separately throughout. Handling salaries is thus merely a subdivision of the regular pay-roll work for convenience, the consideration of principles other than those already mentioned not being necessary. In many instances, the payment of salaries is controlled by an automatic time recorder in the same manner as workmen's pay.

REVIEW QUESTIONS

1. What inconvenience is caused by the method of paying employees once a week? What remedy would you suggest?
2. Name nine general methods or plans of paying wages. Which one do you prefer?

3. Briefly outline the principles underlying the reporting and analysis of labor and salaries.
4. What plan would you suggest to minimize the risk of fraud in pay-rolls?
5. Briefly outline a time-keeping system for a concern employing at least 2,500 persons who are scattered in many places in the United States.
6. What special points should be borne in mind to insure the smooth working of a time-keeping system on a construction job employing at least 1,000 persons?

CHAPTER XXVII

THE BUDGET

1. Definition of Budget

A budget is defined as a "statement of probable revenue and expenditure and of financial proposals for the ensuing year as presented to or passed upon by a legislative body."*

A business budget may be defined as an official forecast of the financial policy of a business for a certain future period (usually a year). It is in the nature of a prospective statement of the anticipated revenues and of the expenditures justified by these revenues or necessary to secure them. It should be based upon a careful study of the past and of the probabilities of the future. It should be assembled by an executive responsible for the administration of the enterprise.

2. Segregated and Lump Sum Budgets

The form in which the budget is drawn up is important. In order to be most useful in controlling expenditures, the estimates should be either segregated or arranged by lump sums, supported by cost schedules. The segregated budget provides separate appropriations covering each specific function of a department; the lump sum form is merely a blanket appropriation covering the needs of each department as a whole. Either form properly operated puts a curb on the

*Standard Dictionary.

spending propensities of departmental officers. The lump sum budget has the advantage of allowing departmental officers more freedom in the use of funds, while the accompanying cost schedules, by showing the work to be done and the unit cost of doing it, still keep the departments under control. Standards of efficiency can be thus set up and checks put on waste.

3. General Importance

Of late years there has grown up an increasing sense of the value to any civic or business organization of such an authoritative forecast. The organization which fails to provide for this essential element of modern financial policy is distinctly behind the times.

The effective control of expenditures is a question of primary importance. The rapid increase with each succeeding year of the cost of doing business has alarmed business men. Estimates on future conditions are necessary if these increasing costs are to be met.

Modern executives, moreover, recognize that to derive full benefit from commercial effort, plans must be laid carefully before a line of work is commenced. In too many cases no provision is made for the persons most interested to secure an intelligent knowledge of either necessary expenditures or of possible business extensions. The budget assembles this necessary information. It is as important for a commercial establishment as for a philanthropic or governmental institution.

4. Importance of a Budget to the Executive

In this connection the importance of a budget to the executive is obvious. It is his duty to outline matters

of future policy. He should propose what business or work shall be done in the year to come; what sort of business organization shall be utilized to carry into effect the business policies proposed; what amount of funds is needed for the kinds of work indicated, and how these funds shall be provided; what shall be the proportion of the expenditures authorized for carrying on each class of work—how much for expenses, how much for capital outlay (cost of land, buildings, equipment, and other properties acquired).

A budget assists the executive in placing before the board of directors and his department assistants a definite, well-considered, comprehensive administrative program. Its advantage is that it brings together both the facts and the deductions from these facts necessary to the intelligent formulation of proposals for which the executive is willing actively to work as the responsible head.

5. Importance to Other Organization Officials

With respect to the administrative program, organization officials in lesser executive capacities also must assume responsibility for action. Since the business and technical needs of an organization are known to the minor officials better than to any others, the proper construction of a budget will give these officials an opportunity not only to state the needs of their departments but to support loyally the men higher up.

6. Budget Preparation

The actual work of preparing a budget usually falls upon the chief financial officer, such as the comptroller

or the treasurer. He should require the department heads to submit detailed written estimates of their financial needs for the ensuing year. The facts presented are best arranged according to functions and activities. By prescribing the forms to be used in making these estimates, he secures uniformity in the departmental schedules.

7. Matters to be Considered

The points to be considered in devising a well-planned budget may be stated as follows:

1. The work that is to be done by the organization as a whole and by each department.
2. The organization at present provided and to be provided for carrying on such work.
3. The character of expenditures authorized and to be authorized.
4. The methods employed and which should be employed for financing each unit of the organization.

If an organization is to prosecute successfully its defined lines of work, proper financing methods are necessary. In the budget the proposed method of financing, and the classes of work or the character of expenditures provided for, may be indicated by estimates which are classified and summarized according to a well-laid-down classification of accounts. This lays a foundation for the consideration of methods of financing as a matter of house policy.

As a result, where a budget policy is in existence, desirable changes in the existing organization and organization activities must be brought up at the time

the budget is drafted. In any event, desirable changes must be determined upon prior to or at the time of the annual meeting. How the existing organization and its activities present and proposed are to be financed must be determined then.

8. Estimate of Revenue

Every concern has some kind of a revenue policy. Yet even among those which make use of a budget, actual possible revenue is not always shown as a preliminary. Possible revenue is related closely to actual and possible expenditure. No concern can adopt safely a policy of expenditures which has no regard for the amount of its revenues. Careless methods in this respect may result in a series of overdrafts—revenue continually falling short of expenses—or at least in an impairment in the amount available for dividends and a consequent reduction in value of the company's stock. If revenues are not sufficient to meet the proper expenditures it may be necessary to secure more capital by the issue of bonds or more stock. Anything of this kind must of course be planned in advance. It is not enough to fix vaguely the amount of expenditures based on an equally vague possible revenue; the amount ought to be fixed definitely and with accurate information.

Since any changes in organization and in the number and extent of activities can hardly fail to affect expenditures, a budget dealing with expenditures must of necessity be concerned primarily with anticipated revenues and secondarily with questions of organization and business activities. Even though other financial considerations control the decision of these ques-

tions, it must be remembered that no concern can enter upon an operating and administrative program, however desirable, if its financial resources do not permit the enterprise to assume the expenses of such a program. In other words, revenue estimates are of paramount importance and must be considered before making expense estimates.

9. Estimate of Expenditures

In the second place the budget must carry an estimate of expenditures to be made during the coming fiscal period, with a careful compilation of estimated costs. These estimates should, as a rule, be prepared and submitted by the heads of the various departments because they are acquainted fully with the details of their respective offices, and familiar with the expenses which may occur in the performance of their duties. The estimates should be presented to the executive charged with the preparation of the budget, who passes on them and distributes the appropriation over the several schedules as he deems best. Against these estimated expenditures are offset the estimated revenues.

The salaries of regular employees must be distinguished from those of temporary employees. Usually, a budget contains a provision that but one-twelfth of the yearly allowance for regular salaries is available each month, while the temporary salaries are available until the allowance is exhausted, or until the end of the year.

Separate sheets should be filled out for each class of supplies or materials for which a budget allowance is requested. When a request is granted to a depart-

ment, the amount allowed for the purchase of each class of supplies should be shown. Separate sheets, also, should be made out for each class of equipment requested and for services rendered by contract or agreement.

10. Budget Approval

The officer charged with the duty of preparing the budget gives departmental heads an opportunity to discuss their estimates and to present any information, not contained in the departmental estimate, which justifies increases over the previous budget. This officer, or his assistants, must be ready to give reasons for any modification of the recommended departmental estimates, and to meet any objection raised by departmental heads.

When the hearings are completed, the estimated needs for the ensuing year should be arranged by departments. This tentative plan then goes to the board of directors, which sometimes makes changes in the estimates. When all these changes have been completed, the budget is accepted and the amounts therein stand as fixed.

Budget modifications must always be submitted to the board for approval.

11. Estimate of Needs of Business as a Whole

Another essential element in the consideration of budgets involves a fiscal plan or program to be formulated for the needs of the business as a whole. This plan should be prepared in advance of its period of use so that it may be presented to the board of directors

in time for careful consideration before being acted on. This program for the ensuing year should be made up carefully. The estimated revenues and expenditures should be correlated and exhibited so that their relative amounts may be examined and compared. A comparison should be made between total expenditures and revenues and between the various items of each, so that the situation can be comprehended at a glance. In this way the amount proposed to be granted for one object in comparison with the amount available for another may be determined easily. The plan also involves a periodical audit of all accounts for the fiscal period in order to determine with what economy the previous authorizations have been spent.

12. Plan for a Budget

The complete budget plan of a concern should be based upon a periodic audit covering the following points:

1. Present as compared with past financial conditions
2. Estimates
   (a) Receipts
   (b) Expenditures
3. Objects and policy changes to which special attention is to be directed, based upon the facts brought out in points 1 and 2

A well-laid-down classification of accounts presents the accounts against which the detailed amounts of possible revenue and expenditure may be entered. The revenue accounts will form one schedule, the expendi-

ture accounts another. All accounts should be stated specifically under their typical divisions. Columns in juxtaposition, in each schedule (Form 75), provide for the recording of amounts:

BUDGET SCHEDULE

Class of Items_____

Department or Purpose_____

Acct. No.	Description	Actual			Recom. of Exec. Com. 1918	Est. of Dept. 1919	Recom. of Exec. Com. 1919	Remarks
		1916	1917	1918				

Form 75. Budget Schedule

13. Illustrative Budgets

Enough material has been presented already in the different account classifications relative to revenue and expenditure to answer the purpose of almost any type of organization. The parts of a budget, other than those concerning revenue and expenditure, present no difficulties from the point of view of accounting.

In order to round out this subject, there are presented below two budget classifications of expenditures, one specifically designed for a charitable institution, club, or society, yet generally suitable for many other purposes; and the other intended for a trading business. The revenues are not considered. The trading budget assumes that the concern is located in a separate build-

ing, for the care of which it is entirely responsible. In practice, any item not desired may be eliminated, and others may be added. In the institutional budget, the arrangement of the topical divisions is somewhat different from those presented in the above classifications, yet the same principles are seen. A vigorous attempt at condensation has been made. Provision is made in heading 64 for entering requests for funds for any items not otherwise listed. An explanation is given, when necessary, as to the kind of items to be considered under each heading.

INSTITUTIONAL BUDGET*

1 Physical Control of Plant—Administration Cost
- 11 Salaries
  - 111 Officers
  - 112 Clerks
  - 113 Other Employees
    (Social workers, teachers, and nurses included under institutional operation.)
- 12 Office Supplies and Equipment
  - 121 Stationery
  - 122 Printing
  - 123 Postage
  - 124 Equipment
- 13 Telephone and Telegraph Service
- 14 Miscellaneous (itemized schedule)

2 Physical Operation of Plant
(Plant running expenses. Not work done in buildings. Latter found under administration and institution operation.)
- 21 Janitor Service—Building Care
- 22 Janitorial Equipment
- 23 Supplies
  - 231 Agricultural—Botanical

*Wherever possible support gross amount by schedule.

232 Automobile and Vehicle
233 Engine Room
234 Laundry—Cleaning—Disinfecting
24 Supplies for and Care of Animals
25 Fuel (coal for relief purposes in institutional operation; coal to be stated separately from wood)
26 Light, 27 Heat, 28 Power } To be secured through an outside agency. Electric current and gas. Cost of operating machines, etc.

3 Physical Maintenance—Plant and Equipment
31 Repairs and Replacements
311 Plant and Equipment (floor repairs, new floor, roof repairs, painting, sanitary equipment repairs, heating and ventilating apparatus repairs, etc.)
312 Furniture and Furnishings (new to be kept separate from replacements)
32 Repair Materials (lumber, nails, paint, etc., for work to be done on premises)

4 Institutional Operation
41 Supplies and Equipment
411 Food Supplies
412 Household Supplies and Equipment
413 Refrigeration Supplies and Equipment
414 Medical and Surgical Supplies and Equipment
415 Educational and Recreational
42 Linens and Bedding
43 Wearing Apparel
44 Salaries
441 Nurses, Orderlies, etc.
442 Teachers, etc.
443 Professional Service
45 Relief (separate schedule to show purposes)
46 Funerals
47 Miscellaneous

5 Fixed Charges
51 Rents
52 Taxes

53 Interest
54 Insurance
55 Miscellaneous (such as boarding out dependents)

6 Miscellaneous
61 Carfare and Minor Incidentals
62 Newspapers and Magazine Subscriptions
63 Freight and Cartage
64 Miscellaneous (items not listed; to be set out in detail)

BUDGET FOR TRADING CONCERN

1 New Assets
11 Office Building
111 General Administration
1111 Sidewalks, Curbings, Gutters, Fencing
1112 Trees, Shrubs (not replacements)
1113 Landscape Gardening, (grading, filling, sodding, etc)
1114 Sewers and Water Systems
1115 Laboratory Apparatus
1116 Structures and Attached Fixtures
1117 Machinery and Equipment (permanent)
11171 Heating Apparatus
11172 Electrical Apparatus
11173 Water Apparatus
11174 Ventilating Apparatus
1118 Furniture and Furnishings
1119 General Library
111A Sundry Equipment
112 President's Office (detailed schedule)
113 Controller's Office (detailed schedule)
114 General Manager's Office (detailed schedule)
115 Purchasing Department
1151 Manager's Office
1152 Department Library
1153 Museum
1154 Miscellaneous (detailed schedule)

116 Sales Department
- 1161 Manager's Office
- 1162 Department Library
- 1163 Museum
- 1164 Miscellaneous (detailed schedule)

117 Credit Department
- 1171 Manager's Office
- 1172 Department Library
- 1173 Miscellaneous (detailed schedule)

118 Correspondence and Stenographic Department
- 1181 Manager's Office
- 1182 Department Library
- 1183 Miscellaneous (detailed schedule)

119 Order Department (detailed schedule)

11A Accounting Department
- 11A1 Auditor's Office
- 11A2 Department Library
- 11A3 Miscellaneous (detailed schedule)

11B Traffic and Shipping Department
- 11B1 Manager's Office
- 11B2 Department Library
- 11B3 Miscellaneous (detailed schedule)

11C Lunchroom
- 11C1 Furniture and Furnishings
- 11C2 Utensils and Dishes
  - 11C21 Kitchen
  - 11C22 Lunchroom

12 Warehouse
- 121 Sidewalks, Curbings, Gutters, Fencing
- 122 Trees, Shrubs (not replacements)
- 123 Landscape Gardening (grading, filling, sodding, etc.)
- 124 Sewers and Water Systems
- 125 Structures and Attached Fixtures
- 126 Machinery and Equipment (permanent)
  - 1261 Heating Apparatus
  - 1262 Electrical Apparatus
  - 1263 Water Apparatus

1264 Ventilating Apparatus
127 Furniture and Furnishings
128 Sundry Equipment

2 MAINTENANCE
(Same divisions as presented for new assets)

3 OPERATION
31 Buildings and Grounds
311 Salaries and Wages
3111 Janitors and Cleaners
3112 Watchmen and Policemen
3113 Elevator Operators
3114 Telephone Operators
3115 Landscape Gardener and Assistants
3116 Scrubwomen
3117 Laborers
312 Materials, Supplies, and Expense
3121 Cleaning
31211 Cleaning Supplies
31212 Toilet Supplies
31213 Miscellaneous (itemized schedule)
3122 Supplies
31221 Lumber
31222 Oils, Paints, etc.
31223 Keys
31224 Miscellaneous (itemized schedule)
3123 Expense
31231 Heat, Light, Power
31232 Ice
31233 Water
312331 Water Rent
312332 Mineral Spring Water
31234 Rent—Taxes
312341 Office Building
312342 Warehouse
31235 Towel Supplies
31236 Miscellaneous (itemized schedule)

32 Office
- 321 General Administration
  - 3211 Salary—President
  - 3212 Salary—Controller
  - 3213 Salary—General Manager
  - 3214 Salaries and Wages
    - 32141 Assistant General Manager
    - 32142 Office Boys (itemized schedule)
    - 32143 Private Secretary to President
    - 32144 Private Secretary to Controller
    - 32145 Private Secretary to General Manager
  - 3215 Traveling Expense
  - 3216 Carfare
  - 3217 Stationery and Office Supplies
  - 3218 Postage
  - 3219 Telephone and Telegraph
  - 321A Express, Freight, Drayage
  - 321B Printing (not stationery)
  - 321C Magazines and Periodicals
  - 321D Organization Memberships
  - 321E Charity
  - 321F Miscellaneous (itemized schedule)
- 322 Purchasing Department
  - 3221 Salary—Manager
  - 3222 Salaries and Wages of Employees (itemized schedule)
  - 3223 Traveling Expenses
  - 3224 Carfare
  - 3225 Stationery and Office Supplies
  - 3226 Postage
  - 3227 Telephone and Telegraph
  - 3228 Express, Freight, Drayage
  - 3229 Printing (not stationery)
  - 322A Magazines and Periodicals
  - 322B Organization Memberships
  - 322C Miscellaneous (itemized schedule)

323 Sales Department
- 3231 Salary—Manager
- 3232 Salaries and Wages of Employees (itemized schedule)
- 3233 Traveling Expense
- 3234 Carfare
- 3235 Stationery and Office Supplies
- 3236 Postage
- 3237 Telephone and Telegraph
- 3238 Express, Freight, Drayage
- 3239 Printing (not stationery)
- 323A Magazines and Periodicals
- 323B Organization Memberships
- 323C Entertainment of Customers
- 323D Advertising (itemized schedule)
- 323E Miscellaneous (itemized schedule)

324 Credit Department
- 3241 Salary—Manager
- 3242 Salaries and Wages of Employees (itemized schedule)
- 3243 Traveling Expense
- 3244 Carfare
- 3245 Stationery and Office Supplies
- 3246 Postage
- 3247 Telephone and Telegraph
- 3248 Express, Freight, Drayage
- 3249 Printing (not stationery)
- 324A Magazines and Periodicals
- 324B Organization Memberships
- 324C Miscellaneous (itemized schedule)

325 Correspondence and Stenographic Department
- 3251 Salary—Manager
- 3252 Salaries and Wages of Employees (itemized schedule)
- 3253 Traveling Expenses
- 3254 Carfare
- 3255 Stationery and Office Supplies

3256 Postage
3257 Telephone and Telegraph
3258 Express, Freight, Drayage
3259 Printing (not stationery)
325A Magazines and Periodicals
325B Organization Memberships
325C Miscellaneous (itemized schedule)

326 Order Department
3261 Salary—Manager
3262 Salaries and Wages of Employees (itemized schedule)
3263 Stationery and Office Supplies
3264 Printing (not stationery)
3265 Miscellaneous (itemized schedule)

327 Accounting Department
3271 Salary—Auditor
3272 Salaries and Wages of Employees (itemized schedule)
3273 Traveling Expenses
3274 Carfare
3275 Stationery and Office Supplies
3276 Postage
3277 Telephone and Telegraph
3278 Express, Freight, Drayage
3279 Printing (not stationery)
327A Magazines and Periodicals
327B Organization Memberships
327C Miscellaneous (itemized schedule)

328 Traffic and Shipping Department
3281 Salary—Manager
3282 Salaries and Wages of Employees (itemized schedule)
3283 Traveling Expenses
3284 Carfare
3285 Stationery and Office Supplies
3286 Postage
3287 Telephone and Telegraph

3288 Express, Freight, Drayage
3289 Printing (not stationery)
328A Magazines and Periodicals
328B Organization Memberships
328C Wrapping Supplies
328D Miscellaneous (itemized schedule)
329 Lunch-room
3291 Salaries and Wages (itemized schedule)
3292 Food
32921 Fruits and Nuts
32922 Vegetables
32923 Meats
32924 Poultry and Eggs
32925 Fish and Game
32926 Flour and Cereals
32927 Sundries
3293 Utensils and Dishes
32931 Kitchen
32932 Lunch-room

REVIEW QUESTIONS

1. What is the relation of a budget to an accounting system?
2. What should be the share of the various departments and general officials in the preparation of a budget?
3. What advantages result from the use of a budget?

CHAPTER XXVIII

SPECIAL RECORDS

1. Miscellaneous Useful Records

This chapter describes certain special records which are not directly connected with the main problems of cash, purchases, and sales, and therefore were not discussed at the time these subjects were considered.

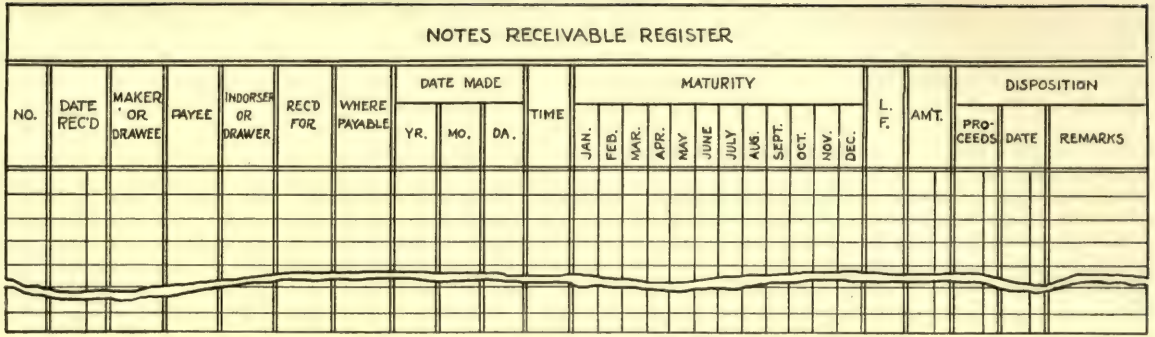
These miscellaneous records are found useful in various special types of business organization. The list here given is not exhaustive but includes some of the most useful.

2. Notes Receivable and Notes Payable Registers

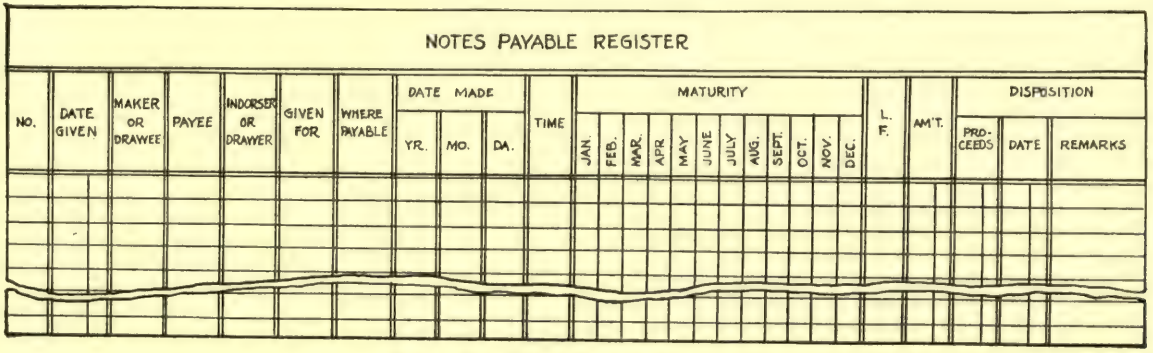
Although the construction of a notes receivable register (Form 76) and of a notes payable register (Form 77) permits their use as books of original entry, it is more common to find them used as auxiliary records. As such they merely furnish a description in full of all notes and drafts issued or received by a business. When used as an auxiliary record, entries for all notes and drafts when issued or received must be made in the journal; when paid, entry is made in the cash book.

Separate registers for notes receivable and notes payable are of value when many notes are handled. Their advantages are as follows:

1. A detailed record of every note and accepted draft is secured and further reference to the paper itself is unnecessary.



Form 76. Notes Receivable Register



Form 77. Notes Payable Register

2. The amounts and maturity dates are set out.
3. A ready record is secured for future reference.

3. Capital Stock Transfer Record

The stock corporation law of New York requires every stock corporation to have at its principal office a book known as the "Stock Book." This book contains an alphabetical list of stockholders' names and addresses, the number of shares held by each of them, the time when they became owners, and the amounts paid on their shares. The law prescribes further that neglect to keep such a book entails a $50 penalty, and that neglect or refusal to make proper entries in this record, and neglect or refusal to exhibit the record or allow it to be inspected in the manner provided by law, involve a like penalty. Form 78 illustrates this book.

4. Allowance Journal

Allowances in some lines of business are so frequent and numerous that a separate record of them is desirable. This is true, for example, of a large coal company. An allowance journal here will assist in preventing the regular journal record from becoming cumbersome and will keep allowances in one place for ready reference. The principle of the record is readily applicable to many other types of business. Form 79 illustrates this record.

5. Drivers' Sales

In certain lines of business, for example bakeries and dairies, which permit drivers to make sales, a system should be used that will show proper accountability. The driver's book (Form 80) is the most important

Name
Address

Date Shares Transferred by Above	To Whom Transferred	Certificates Turned In		Ownership Began	From Whom Shares Transferred If Original Issue Indicate Such	Certificates Issued		Amount Paid Thereon	Balance of No. Shares Held
		Nos.	Shares			Nos.	Shares		

Form 78. Corporation Stock Book

ALLOWANCE JOURNAL

Date	Customer	Car Book Ref.	√	Car		Freight	Miscellaneous Allowances	Total Cr. Accts. Rec.	√
				Initial	Number				

Form 79. Allowance Journal

part of the system. The names of the customers are entered on the sheet at the shop, the driver entering in the proper columns the number of loaves or bottles delivered and cash received, so that the record will be complete when returned to the office at the end of the day. If there are a number of drivers it may be necessary to have two books for each route, using them on alternate days. A record is also kept at the shop of the total number of loaves or bottles taken out and returned each day.

DRIVER'S BOOK

Date_____

Name	Cash			Charge	Tickets
	Paid on Account	Retail	Wholesale		
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....

Form 80. Driver's Book

The bills, weekly or monthly, are made up from this record. A carbon copy of each is made and kept for reference. Any balance which may be due from the previous period is transferred from the carbon copy to the current copies. When a customer makes payment, the original, the customer's bill (Form 81), is receipted by the driver. This feature eliminates the opening of ledger accounts.

Since a record is kept of the number of loaves

WEEKLY ACCOUNT

Customer_____ Address_____

Date_____ Balance from Preceding Week.... ....

	Mon.	Tues.	Wed.	Thurs.	Fri.	Sat.	Total No.	Price per Loaf		
No. Loaves	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....

Received Payment_____ Total Amount.... ....

Name_____ Date_____ Paid on Account.. ....

Balance ....

Form 81. Customers Weekly Bill

ORDER REGISTER

Date	Name	Order No.	√	Sales		Agent Name	Com.	√	Offset Drawings	Remarks
				Amount Due	Amount Paid					
.....	.....	.....	...	.....	.....	.....	.....	..	.....	.....
.....	.....	.....	...	.....	.....	.....	.....	..	.....	.....
.....	.....	.....	...	.....	.....	.....	.....	..	.....	.....
.....	.....	.....	...	.....	.....	.....	.....	..	.....	.....

Form 82. Order Register, showing Sales and Agents' Commissions

charged to each driver, and the number returned each day, it is possible by means of the forms suggested to secure a statement of the sales of each driver. Provision has been made for tickets in the driver's record sheet (Form 80). If tickets should be used, a ticket register form should be added to those here shown so that all issued tickets may be properly accounted for. In this way, used tickets cannot easily be turned in a second time without detection.

6. Salesmen's Commissions

The employment of salesmen who sell on commission presents a problem which requires some special consideration. It is necessary to keep their accounts in an accurate manner to show exactly what the salesman has earned in any given period. As an illustration, take a commission salesman selling an article upon the instalment plan.

Such a salesman is usually allowed a weekly drawing account, the amount of which is charged against his commissions. At certain intervals an accounting takes place, and the salesman is paid any excess standing to his credit over the amount drawn to date, or is charged with any excess in favor of the company if his drawings exceed commissions. When an excess in favor of the salesman is shown, he is paid a certain amount, usually one-half of the sum of total payments made on sales. For example, if sales made entitle the salesman to $100 commission, this amount will be paid him only when $200 has been paid by customers on the sales.

The customers' accounts may be grouped according to agents, in a loose-leaf ledger. In connection with this

ledger is an order register (Form 82), showing the total sales for a certain period, and the total commissions on these sales. From this register, postings are made to the customers' ledger accounts and to the agents' accounts. An identifying number is given to each order and is carried into the order register. When desired, group totals are secured, recapitulated, and checked against the order register. It is then an easy matter to determine from these totals what amount is due the agent above his drawing account.

7. Pledge Record

A charitable organization or a church should keep a record of pledges made and of the amounts paid upon them. The following card form (Form 83) is simple, and meets most requirements. It is printed on two sides, the reverse merely a continuation of the front.

RECORD OF PLEDGES

U. M. E. CHURCH

Name_____ Wk. Pledge_____
Address_____ Mo. Pledge_____
Remarks_____ Total Pledge_____

Wk.	Mo.	Paid	Unpaid	Balance	Wk.	Mo.	Paid	Unpaid	Balance
1					11				
2					12	3			
3					13				
4	1				14				
5					15				
6					16	4			
7					17				
8	2				18				
9					19				
10					20	5			

Form 83. Pledge Record

It may be placed in a tickler file, to serve as the basis of a follow-up system.

8. Diamond Register

For a jewelry house, a register for precious stones, such as diamonds, is of value. The principle can of course be applied advantageously to other goods.

In such a register loose stones, which are easily lost or stolen and represent great value in small quantities, should be separated from mounted goods. The register suggested in Form 84 for loose stones is simple, containing not nearly the number of columns found in some registers. It is in actual use, however, in a well-known wholesale jewelry establishment and meets all requirements. Loose stones are purchased in papers, each paper containing stones of different sizes, all of them together totaling a certain number of karats. When the paper is received, the stones therein are examined and graded. Then as many numbers are given the paper as there are grades of stones contained in it. For example, the illustration shows three numbers on the same day. All three numbers make up the one paper of stones purchased, the identification of the total value of the entire paper being made possible by this means. This method of notation may seem somewhat peculiar, but it is used and works well.

9. Insurance Register

Fire insurance policies at times present a problem. Many times in checking over policies one finds that some important clause has been overlooked. Permits and other important clauses in the various policies cov-

DIAMOND REGISTER (LOOSE STONES)

No. Paper	Date Purchase	Name	No. Stones	Total Weight	Code Price
1101	10/3	J. Jones			
1102	10/3	"			
1103	10/3	"			
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....

DIAMOND REGISTER (MOUNTED GOODS)

Stock No.	Catalogue No.	Details	Date	No. Paper	Weight	Price in Paper (Code)	Mounting Cost (Code)	Total Cost (Code)	Selling Price
.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....	.....	.....	.....	.....

Form 84. Diamond Registers

INSURANCE

No. Policy	Int. Receipt	Company	Agent	From	Term	To	Amount	Covers
.....	.....	.....	.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....	.....	.....	.....

REGISTER

Lighting Clause	Gas Engine Clause	Overtime Clause	10-Day Repair Clause	Co-insurance Clause	Further Insurance Clause				Remarks
.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....	.....	.....	.....	.....

Form 85. Insurance Register (left- and right-hand pages)

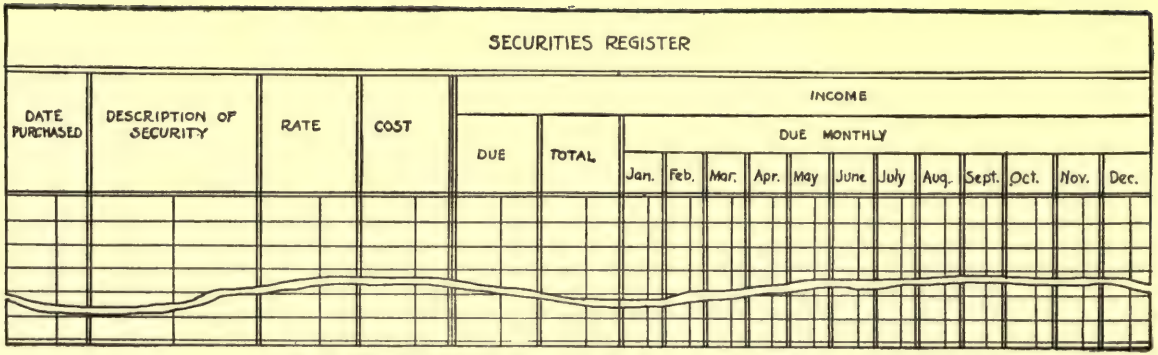
ering a plant or a certain stock of goods ought to be similar in wording. If one policy allows a plant to be shut down for a certain length of time, the other policies on the same plant ought to provide for the same allowance. If not, a serious question may come up later as to whether or not the plant was covered by all its policies should it be shut down without notice.

An insurance register is valuable. According to the register shown in Form 85, when a policy is received, it is entered on the page given to that special line of insurance. The particulars are entered on the left-hand page, and a check mark is placed under the proper headings on the right-hand page, which is made up of columns headed for the various clauses and permits required on that particular line of insurance. By using such a register, whenever a policy is received or renewed the necessary clauses on each policy will be checked automatically, without reference to the policy itself, and the danger of accidental omission of any particular clause is avoided.

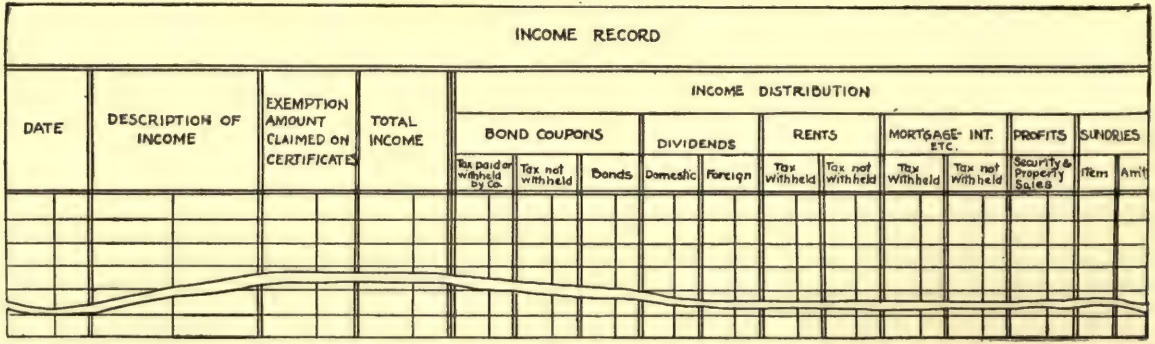
10. Commission Merchants' Consignment Register

When a commission merchant receives goods to be sold on a consignment basis, he checks the goods as received with the invoice, or letter, or with whatever information he has received from the consignor regarding the shipment. He numbers the consignments in order as they arrive, each of them receiving the number next following that of the last preceding consignment. This number is marked on each package or article of the consignment, and is entered on a consignment register.

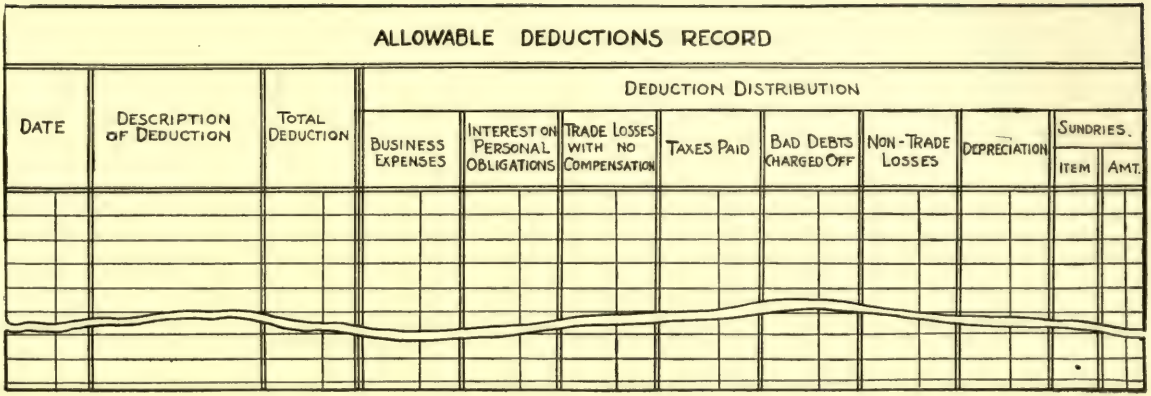
In appearance, this register may be ruled like a simple two-column journal. In the case of a large business



Form 86. Securities Register for Income Tax Purposes



Form 87. Income Record for Income Tax Purposes



ALLOWABLE DEDUCTIONS RECORD

DATE	DESCRIPTION OF DEDUCTION	TOTAL DEDUCTION	DEDUCTION DISTRIBUTION								
			BUSINESS EXPENSES	INTEREST ON PERSONAL OBLIGATIONS	TRADE LOSSES WITH NO COMPENSATION	TAXES PAID	BAD DEBTS CHARGED OFF	NON-TRADE LOSSES	DEPRECIATION	SUNDRIES. ITEM	SUNDRIES. AMT.

Form 88. Allowable Deductions Record for Income Tax Purposes

it has an index, containing name, address, page, and consignment number of each consignor. All charges are entered in the left-hand column and all credits in the right-hand column. The charges are (1) the cost to the consignor of all outlays, advances, etc., made on account of the consignment by the consignee, (2) the consignee's charges for his service, and (3) the proceeds remitted or credited to the consignor. The credits are the returns secured from sales, allowances, etc., received by the consignee for the account of the consignment.

11. Income Tax Records

When the income is derived from many sources, a complete income tax record has three parts:

1. Securities register (Form 86)
2. Income record (Form 87)
3. Allowable deductions record (Form 88)

The column heads shown on the forms are self-explanatory. The records shown serve the requirements of a business man whose income is derived from securities, rents, and business profits.

REVIEW QUESTIONS

1. Rule a notes receivable register which may be used as a posting medium.
2. Rule a corporation stock transfer record.
3. Rule an insurance register in which insurance schedules and clauses may be recorded.
4. Rule a form of consignment register for a commission merchant.
5. Rule a set of forms which will provide a complete income tax record for an individual.

CHAPTER XXIX

MECHANICAL AIDS

1. Importance of Mechanical Aids

In office work mechanical aids are of great and increasing importance. As a general rule, the clerical efficiency in many an office could be increased materially by the introduction of labor-saving machinery and the proper supervision of the work done upon it. But it would be too much to say that nothing should be done by hand which can be done by a machine, for the question of cost must be considered.

The economy to be effected by the use of a machine may be tested by these requirements:

1. There must be work enough to keep it in use.
2. Its cost of operation must be less than the old way of doing the work.
3. It should eliminate costly mistakes.
4. The work done should be of a class higher than that done in the old way.
5. The amount of work done should be greater than the amount done in the old way.

Certain labor-saving machines are particularly useful in the accounting work of the office; those of chief importance in this connection are as follows:

Calculating machine
Billing or bookkeeping machine

Tabulating machine
Slide rule

Other labor-saving devices facilitate the work of the accounting department, although not directly related to accounting. They are useful in various degrees and ways. Some devices are:

Typewriter
Automatic register
Photographing machine
Cash register
Time recorder
Numbering machine
Stamp affixer
Pencil sharpener

2. The Calculating Machine

The bookkeeper's drudgery consists chiefly in the various mathematical operations he must perform every day. Not only do calculating machines relieve him of the drudgery that is connected with all arithmetical operations, but by their use a great saving in time is secured. A day's work can be accomplished on time, with no "hang-overs" from one day to the other. When mechanical action is substituted for mental computation, not only time and cost are saved, but office positions are opened to persons who otherwise would be debarred because of their inability to calculate rapidly and accurately. Rapidity in mental calculation is not now regarded as an essential part of a clerk's qualifications.

One step in the application of machinery to office work was the introduction of the adding machine. The

first machines were crude and slow in operation, but those now in use are both accurate and rapid. So far as the machine itself is concerned, it can make no mistakes, although, of course, the operator may. Machine calculations can be done with such absolute accuracy that no rechecking is necessary, but because of the element of human operation it is desirable that they be checked in all cases. As a practical matter mental calculation is never passed as correct until checked carefully.

Calculating machines can be used for all sorts of calculation besides addition. Modern calculating machines are of two kinds:

1. Those which make no permanent record of computations.
2. Those which record computations in permanent form.

The first class is composed of the non-listing machines. They do satisfactorily the great mass of ordinary calculating which arises in the course of a day's work, where permanent records of these figures are not required. These machines are smaller in size than the other kind, and cheaper. They are operated more rapidly than the listing machines since they usually have no cranks or levers to manipulate. Because of their usual small size, they do not need to be given a fixed location in the office, and when necessary they may be moved easily from one place to another. Their rapidity of operation is such that calculation may be made twice over, to check its accuracy, in less time than it takes to do it once on the listing machine.

The listing calculating machine which makes records at the same time that it adds, is used for a variety of purposes in every field of commercial activity where it is necessary to keep a record of the figures in the calculations. Such machines are chiefly used, however, for additions. By the use of carbon paper, many lists may be prepared at one time. These pages can be inserted directly into loose-leaf binders. Perfect and accurate copies of every transaction are secured without the need of rewriting.

In purchasing a calculating machine, attention must also be given to the size of the amounts the machine will handle, to its speed and durability, and to whether or not a partial or incomplete pressing down of the keys will cause an error in the calculation.

3. The Billing or Bookkeeping Machine

The billing machine, which was mentioned in Chapter XVI, is a combination effected either by the addition of an adding attachment to a typewriter, or of type keys to an adding machine. On the billing machine invoices for goods sold may be made out, and the invoices extended and totaled, with all discounts taken into consideration. In fact, a dozen or more different records may be made out at one time. The billing machine is now commonly known as a "bookkeeping machine."

With the flat-bed machine, records may be made at will on the pages of regularly bound books, on loose leaves, and on any other sort of document or paper. The entire writing surface is exposed. Work may be done at any point on the exposed surface. Corrections may be made without disturbing or removing the forms.

4. Tabulating Machines

These machines are of great practical use in large offices where a great amount of statistical tabulating is required and where the accounting system is elaborate. Their operation is almost marvelous. By their use business statistics may be analyzed as minutely as desired. Any information in regard to any item or group of items may be secured in a few minutes. Business statistics are made available which, in the ordinary course of events, could be secured only after hours of laborious work, if at all. Even though certain statistics are passed over as unnecessary when the record is made, they are readily obtainable later should they be desired. If such details as are made available by use of these machines were desired from the ordinary records, it would not only be necessary to provide books with a multitude of columns, but the clerical labor in connection with keeping the records would be so great that the system would break down completely in a very short time.

The complete machine consists of three units, as follows:

1. Punching machine
2. Sorting machine
3. Tabulating machine

The basis of the system is a small card on which the information is recorded. Each card has ten or twelve lines, and is wide enough for perhaps fifteen columns of three figures or letters each. A column three figures wide and ten lines long will accommodate any number less than 1000, but not fractions or decimals. The columns, of course, are made wider or narrower to meet

the needs of a given case. If an unusually large amount has to be recorded in a column too small to take it, it can be split and recorded on two cards, the sum of the two entries being the original number.

Each transaction is recorded upon a separate card, by punching out the proper figures in each column. The punching machine operates like a typewriter, punching a round hole where a certain number is located. The position of the hole horizontally shows the nature of the transaction; its position vertically indicates the amount of the transaction. The numbers on the cards are arranged in a code covering every item in the classifications, each item being given a number. One number on the card, for example, may represent a state, another a town within that state, and so on.

The original written document gives the information for the cards. This document is coded by one clerk, the code figures are checked by another clerk, and it is then ready for recording on the card. These code figures, for example, may show the month, the day, the department, the order number, the account to be charged, the quantity, and the amount. One clerk takes the original document and a fresh card and punches out the numbers on the card to correspond to the code figures on the original paper. Cards can usually be punched at the rate of 250 per hour. The original document is then filed away in a cabinet, after this punching process has also been carefully checked to insure accuracy.

After the cards are punched, it is an easy matter to sort them in any way desired. This is done by means of a sorting machine, which sorts the cards into any de-

sired grouping according to the classifications, the machine being set to bring about the grouping selected. In this way, transactions are classified and analyzed at will. The cards as sorted are thrown out in piles at the rate of almost 15,000 an hour.

These cards are then run through the tabulating machine to secure automatically the total figures desired. The proper totals are built up for as many compilations in connection with the transactions under consideration as may be required. Nine thousand cards an hour can be handled.

5. The Slide Rule

Although the slide rule is used principally by draftsmen and engineers, its use in the office is very great. Its manipulation is not as cumbersome and complicated as many business men believe. Many different types of arithmetical problems may be solved with it. It is especially adapted to multiplication and division where approximate results are sufficient. It is also of use in intricate problems in which two or more operations are necessary and which involve higher mathematics, such as roots, logarithms, etc

The slide rule is either plain or cylindrical. The cylindrical rule is much more accurate than the plain rule because of the increased number of scales. A cylindrical rule straightened out is equal in length to a plain rule about 36 feet long. In statistical work the cylindrical rule is invaluable; averages, unit costs, percentages, pro ratas, etc., may be figured easily and rapidly, if approximate accuracy—that is, to about the fifth figure—is all that is required.

6. The Typewriter

Perhaps the most important machine ever introduced into office work is the typewriter. It is of such universal use among business houses at the present time that a description of it is unnecessary.

There is universal agreement today as to the convenience of having business documents written legibly so that they may be read rapidly and without hesitation. Practically anyone can learn to operate a typewriter fairly well in a comparatively short time, whereas only a few clerks, relatively speaking, can ever learn to write longhand legibly and at the same time with rapidity. Again, one or more carbon copies of any paper can now be made without extra effort, and the laborious and unsatisfactory copying by longhand or by letter press can be avoided.

Modern methods of accounting could not have been developed without the use of the typewriter. A third advantage secured from the use of the typewriter is that the output of documents has been increased and that in cases of special need the documents desired can be prepared in a very short time

7. Automatic Register

One way of making out bills with the aid of machinery is by the use of the automatic register. This register is constructed to present a hard, flat writing surface on which the bill may be made out with either pen or pencil. Three copies of each bill are made at a writing. When the writing is completed, a crank is turned and two of these copies come out at one end of the machine so that they may be detached from a roll

of paper inside the register. One of these two copies is given to the customer; the other is retained for checking against the third copy. The third copy, which winds onto a spool in the machine, cannot be taken out until someone in authority unlocks the register, usually at the end of the day. This copy is used for purposes of rechecking, auditing, and giving the management a complete and concise record of transactions.

8. The Photographing Machine

In large offices the photographing machine is a very useful instrument. With it, photographs of any sort of a document may be made very rapidly, in less than a minute. It is especially useful in an office requiring copies of statistical tables, or quick facsimiles of important documents. The copies may be made either as negatives or as positives of the original.

9. The Stamp Affixer

This is an automatic device to control the issue of stamps. Stamps are placed in a locked box and can be taken out only by being affixed to envelopes. The use of such a machine, instead of having stamps distributed generally to the several desks, will eliminate a considerable loss from carelessness or misuse.

Every office is obliged to use postage stamps. Even if the amount expended each month on this item seems large it is usually passed over as unavoidable. In many cases when books do not balance, the bookkeeper will charge the difference to the postage account. The use of such a machine may eventually uncover extensive errors existing in the accounting records.

Stamp affixers are often attached to machines for sealing envelopes.

10. The Time Recorder

The time recorder, which has been discussed already in Chapter XXVI, is merely a clock with a recording mechanism attached to it, for noting accurately the working time of employees. Every large office should provide for the employees checking in and out, if for no other reason than to discourage their coming in late and leaving early.

11. The Numbering Machine

In an office where it is necessary often to number papers, cards, envelopes, requisitions, order blanks, etc., a numbering machine will be found useful. Such a machine numbers consecutively, in duplicate, or by repeating any number as many times as may be desired.

12. The Cash Register

The cash register has come to be looked upon as a necessity in modern business. Few firms get along without one, and in a retail business especially its use makes possible a correct record of cash details which otherwise would certainly be overlooked at times. The rapidity with which many retail transactions—often considerable in amount—are conducted, makes error or fraud easy. This the register, in part at least, prevents.

The cash register can be used to advantage in the office for various other purposes, such as keeping the daily bank balance, for recording money received on account, and for recording petty cash expenditures.

REVIEW QUESTIONS

1. Mention the various factors which determine whether or not a machine installed in an office will be an economical purchase.
2. How would you make use of a tabulating machine unit in the office of a factory which manufactures steel drills of many sizes? The factory is located in Ohio. It has three branch selling agencies—one in Chicago, one in New York, and one in Canada. Goods are sold all over the world.

Part II

Illustrative Systems

CHAPTER XXX

RETAIL AND WHOLESALE ACCOUNTING

1. The Retail Problem

Every retail business needs a simple and well-arranged system of accounts which will enable those interested to know at any time just how the business stands, what it owes, and what is owing to it. If such a system is not kept, a correct statement of condition is impossible, and as a result the securing of credit is jeopardized. Credit is given in most cases because the creditor believes the obligations will be paid when due. The creditor is most likely to receive this impression if he is shown a satisfactory statement of condition compiled from a well-kept set of books of account. Such a record, also, enables a merchant to meet competition, which frequently forces the making of close prices. A correct system by disclosing losses prevents their repetition. The retailer has fully as much need to know where he gains or loses as the wholesaler.

2. The Wholesale Problem

The present tendency in the wholesale trade is toward the development of an organization similar in its essential features to that of the typical retail establishment. Success depends upon good buying and good selling just as it does in the retail business. What is said concerning retail accounts and concerning constructive principles is applicable also to wholesalers.

3. The Object of Business

The object of conducting a business is to make a profit, which means to sell the product for more than it costs to buy and place it before the public. Therefore, any business, large or small, to be successful must consider three things:

1. The cost of doing business
2. The amount of business done
3. Profits and losses

The accounting system in use must provide an intelligible record covering these points. The record must give a general outlook over the whole business and at the same time give detailed information for the control of particular transactions.

4. The Cost of Doing Business

Many directions as to what is to be included in the cost of doing business are found in books on accounting, as:

1. Production
2. Selling
3. Overhead, including both administration and capital charges.

All those expenses which follow the cost price must be taken into consideration in figuring the selling price. These expenses must all be known and likewise the relations they bear to one another and to the whole amount of business done. Fixed rules are useless for handling and determining expense, since what it is and how it is handled depends entirely upon the merchant. Almost every case requires different treatment.

5. Profit on Sales

The most accurate means of determining profits is a physical inventory taken monthly. The time and interference with business which are involved render it impracticable, however. There are two substitutes for the monthly physical inventory that will secure approximate results:

1. Adopt the practice of marking the cost price in conjunction with the selling price of each article to be sold.
2. Ascertain by experience the minimum gross profit made on each class or recognized group of sales.

Practically correct results are secured by finding the profits on the total sales. Suppose in a certain business a minimum profit of 35% on $1,000 sales is assumed to be correct. $350 then is gross profit. If from this profit the total expenses are deducted the remaining balance will represent net profit. Although certain errors exist in such a method, due to the fact that 35% may be low or high as regards certain sales, the method is in general use in determining profits during the course of a year. At the end of the year the actual inventory is taken and the assumed profits can be then adjusted to their true amount.

6. Records and Statements

The essentials of any retail system of accounts are:

1. Cash accountability records
2. Purchase records
3. Sales records

These essentials follow the principles presented in the first part of this volume. To operate such a system of accounts requires a journal, cash book, purchase book, creditors ledger, sales book, customers ledger, general ledger, sales tickets, and return sales tickets.

Monthly statements should be prepared from these records to present the business results in comprehensive form. These statements would be:

1. Statement of profit and loss
2. Balance sheet
3. Summary of business condition

7. The Journal

The ordinary two-column journal may be used. Its opening entry is a statement of the assets, liabilities, and capital of the firm. Transactions which do not go through either the cash book, purchase book, or sales book, should be entered in the general journal. Adjusting and closing entries, entries concerning notes receivable and payable, and entries for allowances and corrections, are typical journal entries.

Journal entries affecting customers' and creditors' accounts should be posted respectively to the Accounts Receivable and Accounts Payable accounts in the general ledger as well as to individual accounts in subsidiary ledgers. Therefore, for each such entry, two ledger folio numbers should be found in the folio column

8. Cash Accountability

When business is done on a cash basis, all purchases and sales being for cash, the problem is simple. Such a condition, however, seldom exists.

The accounting system to be worked out will vary of course with the kind of business in which the merchant is engaged. All cash receipts and all cash collected on account—the total cash receipts of each day —should be deposited in the bank. All payments except from petty cash should be made by check. A cash register should be used, and this should contain a petty cash fund sufficient in amount to meet the needs of each day.

The cash book records all cash transactions. The column headings of the two sides of the record may be as follows:

1. Receipts side:
   - Date
   - Account
   - Description
   - Ledger Folio (L. F.)
   - Accounts Receivable
   - Sales Discount
   - Cash Sales (if not entered in "General" column)
   - General
   - Net Receipts
2. Payments side:
   - Date
   - Account
   - Description
   - Check Number
   - Ledger Folio (L. F.)
   - Accounts Payable
   - Purchase Discount

General
Net Payments

The monthly total of cash sales is checked against the total of cash sales tickets and then posted to the credit of Sales account. The total of cash collected on account is posted to the credit of Accounts Receivable. The total of payments on accounts payable is posted to the debit of Accounts Payable. The total purchase discount is debited to Accounts Payable, and the total sales discount is credited to Accounts Receivable.

In order that each month may be charged with its proper amount of expenses, all expense bills should be paid at the end of the month.

9. Purchase Records

A record of merchandise bought should be kept. The purchase record or journal may be headed as follows:

Date
Invoice
  Date
  Number
Creditor
Address
Ledger Folio (L. F.)
Amount—Credit Purchases
Amount—Cash Purchases

By passing all purchases, cash or credit, through the purchase journal, the amounts necessary to post to the ledger account of merchandise are assembled in one place and it is an easy matter to watch the increase during the month. Postings are made direct from this

book into the purchase ledger, the monthly total being debited to Merchandise Purchases account and the monthly total of credit purchases being credited to Accounts Payable account in the general ledger. Cash purchases will be entered upon the cash book in total from the purchase record as a credit to cash. They may be handled, however, entirely through the cash book, not being entered at all upon the purchase journal. When credit purchases are paid for, Accounts Payable is debited and Cash is credited.

The purchase invoices should be checked as to extensions and totals. Then they may be entered in the purchase journal, and from there posted to the purchase ledger and to the general ledger as already indicated. If the business is departmentalized, they may be posted to a departmental distribution sheet. It is advisable at this point, also, to post each amount to a "Due Bill Register," described below. The departmental distribution sheet should be posted once a week, one sheet being sufficient to take care of from 25 to 30 departments.

Each department may check in its own goods, the records being so arranged that those of each department are kept separate from the others. Invoices should be checked against a copy of the purchase order and then against the goods themselves when the goods are received. The weekly total of invoices in each department should equal in amount the departmental total as shown on the departmental distribution sheet. This practice provides a check which will catch a posting error or an error due to a lost invoice.

The due bill register, which is posted from the purchase journal, contains the details needed in the pay-

ment of bills. On one or more sheets are listed the bills due each day for a period of three months or more in advance. On the sheet for each day are all the details necessary for paying every bill due that day.

Each morning this record is examined and the bills due that day are noted on blank forms, each creditor being given a separate blank. This form is columnarized to record the date and amounts due according to the terms of payment. For each creditor a check is made out, which is fastened to the respective blank and is sent to the proper official for signature. Cash book entries for payments may come from the check book. From the cash book payments are posted to the debit of the respective creditors' accounts.

An alternative to the due bill register is simply to file the invoices, after checking, in a tickler so that they will come up for payment on the proper day. When paid, they are stamped with the date of payment and filed in a permanent invoice file.

10. Sales Records

As each salesman makes sales during the day he enters them on serially numbered sales slips, the daily total of these slips representing the amount of sales for the day. These slips should be checked against the cash received. Charge sales slips go to the bookkeeper for entry in the customers ledger. Credit slips (for returns), which are made out as required during the day, go to the bookkeeper for entry in the accounts receivable ledger. As accounts are paid, a cash book entry is made charging Cash and crediting Accounts Receivable.

Invoices are made in duplicate, one copy to go to the customer and the other to be used as a posting medium. When these invoices are made out, it is a good plan to show on them only items and prices. To check the accuracy of the extensions, two persons should figure them separately, on the two copies.

The copies to be used in posting are sorted first according to the bookkeeper's ledger divisions and then those for each ledger are sorted alphabetically. Before each group is posted, the profit thereon should be figured by means of a profit book. According to this plan every article sold by the firm has a number, and each department is numbered also; if a certain department, for example, is numbered 10, the first article listed therein may be numbered 101. The profit book contains the number of each article sold, and its cost, together with the percentage of profit, and from this record the amount billed to the customer may be verified.

When the profit has been figured, the bookkeeper secures these sheets from which to make his ledger entries. When he has finished with them they are either filed away or used for statistical purposes.

11. The Ledger

The ledger may be a single book, although it is advisable usually to have a separate accounts receivable ledger, and where the volume of business warrants, a creditors ledger also. If one ledger be used, the account arrangement may be as follows:

1. General accounts
2. Accounts payable
3. Accounts receivable

The accounts receivable ledger page should be made in duplicate, one page given to each account (see Form 72, page 255). The first page is perforated at the left. At the end of the month after the daily entries are completed and the entire month's business is recorded and footed, each customer's account is ready. The perforated first sheet contains an itemized statement of the month's transactions and is sent to the customer. The duplicate remains in the ledger as a permanent record.

CHAPTER XXXI

AGENCIES AND BRANCHES

1. Agencies

Usually an agency is only a selling office. It does not collect or pass on credits; that is normally done at the home office. An agency often makes its own purchases, however, and pays its own bills. It may carry a stock of goods from which to ship, or it may have the goods shipped from the home office. Sometimes, indeed, contrary to usual practice, it may pass on certain credits under home office supervision. If the agency has a stock of goods from which shipments are made, it ought to be allowed the privilege of passing on credit risks in order to expedite matters; otherwise customers may have to wait too long for service. The customers' accounts would in this event still be handled at the home office, the agency reporting them, and the home office making collections. The home office treats these agency sales like traveling salesmen's sales, a memorandum Agency Sales account being kept for the purpose of ascertaining whether or not the agency is profitable.

2. Agency Accounts

An agency's accounts are very simple. Its running expenses are paid from a fund furnished by the home office, and handled like a petty cash fund. If the agency is working on a commission basis, a settlement is made with the home office at stated periods.

The agency charges Merchandise with goods received from the home office at an agreed price and credits the home office. Merchandise is credited with sales at cost and the home office charged. If the agency desires to show on its own books its own gross profits, Merchandise will be credited and Sales charged with cost, and the home office charged and Sales credited with the selling price. The Sales account balance is only a temporary one, belonging in home office records.

3. Home Office Accounts with Agency

As was mentioned above, a memorandum account with agency sales is kept at the home office to show the profitableness of the agency. In addition, since the agency expenses are paid out of a fund similar to a petty cash fund, an account must be kept with this. Therefore, the home office keeps an Agency Expense account to which are charged the checks drawn to reimburse the agency petty cash fund for expenses paid from it.

The home office must keep its accounts so that they clearly show unsold goods at the agency as belonging to the home office.

4. Branches

Systems of control of a branch by the home office differ greatly. Sometimes the branch is practically free to do as it pleases, and again its powers may be carefully curtailed. Generally speaking, a branch makes its own sales, passes on its own credits, collects its own accounts, and keeps its own bank account. It may make purchases wholly or in part, it may pay its

own bills, but important purchases are usually made by the home office, the home office paying for them and charging the branch with them.

Sometimes all branch collections are deposited to the credit of the home office. If this is done, the home office makes all branch payments.

5. Branch Accounts

Branch accounts are kept in many ways. In some cases all the original records are loose sheets, made up in duplicate. By means of carbon paper two copies of each record are made, one of which is sent to the home office. In this event, the home office keeps an exact duplicate set of branch records, except perhaps the detail of the accounts receivable and payable. At the end of the month, the accumulated monthly duplicate sheets are sent to the home office, and the branch starts new sheets for the next month.

Again, the home office may receive daily, weekly, or monthly reports from the branch. These reports are made with sufficient detail so that the home office may write up a complete set of records in duplicate. According to a different plan, the branch may be practically free from home office supervision, only general reports being rendered at the end of each month, as for example, merely a copy of its general ledger trial balance.

Branch books contain no permanent capital accounts, since the capital accounts are carried on the home office records. At the end of any period, branch books will contain only current assets and liabilities, and an account with the home office. Even the branch merchan-

dise account is kept differently from that of a regular trading concern, since usually the branch secures its merchandise billed at an arbitrary figure so that its cost will not be known to the branch. Profit or loss for a period cannot be secured from branch records, because of the facts just stated, and also because, since the fixed assets are usually not found on such records, no depreciation charge can be determined. This is all done at the home office.

6. Home Office Accounts with Branch

The branch accounts at the home office are kept separate from those of the similar accounts pertaining to the home office business. Branch shipments are never credited to the home office Sales. They should be charged to Branch Merchandise account and credited to Branch Consignments account, regardless of the price at which the shipments are billed. At the end of the year, the difference between the debit balance in the Branch Merchandise account and the Branch Inventory is credited to Branch Merchandise and charged to Branch Consignments. These two accounts then exist with offsetting balances equal in amount to the inventory. When periodical statements are prepared, the branch inventory, taken at cost regardless of its value on the branch books, is added to the home office inventory. Branch sales are credited to Branch Profit and Loss, and branch expenses, depreciation, and cost of goods sold by branch are debited to Branch Profit and Loss. The resulting balance in the Branch Profit and Loss account sets forth the result of the branch operations for the period considered.

7. Shipments To and Between Branches

The home office usually ships direct to its various branches when it is more profitable to do this than to buy the goods in the local market. In this event, the freight charge resulting must be added to the cost of the goods shipped.

The cost price at any one branch will always be the same, although at one branch it may be more or less than at another, owing to the differences in the distance of the various branches from the home office. The practice of charging each branch with its own freight is sound accounting and actually involves little more trouble than one general freight account.

Sometimes it is necessary to ship goods from one branch to another, and the reshipment means that an additional cost must be allocated somewhere. If on account of the reshipment the cost of the goods is more than it would be if the goods were shipped direct from the home office, the difference must not be added to the cost of the branch goods, but must be debited to an expense account on the home office books. Every branch should receive its goods by direct shipment and should not be penalized for a mistake made in sending too much to another branch in the first instance.

8. Books for a Chain Store System

The rest of this chapter is devoted to outlining roughly a system of accounts for a store with branches. The material presented plus what has already been said ought to be sufficient as a basis for any bookkeeper of experience to establish a branch system or revise an existing one.

9. Classification of Accounts

The accounts are divided into four major groups:

1. Assets
2. Liabilities and Proprietorship
3. Income
4. Expense

1. Asset Accounts

Cash on Hand
  General Office
  Store No. 1
  Store No. 2
  Store No. 3
Cash in Bank
Notes Receivable
Accounts Receivable
Merchandise Inventories
  General Storeroom
  In Storage
  Store No. 1
  Store No. 2
  Store No. 3
Land
  Store No. 1
  Store No. 2
  Store No. 3
Buildings
  Store No. 1
  Store No. 2
  Store No. 3
Furniture and Fixtures
  General Office
  Store No. 1
  Store No. 2
  Store No. 3
  Storeroom
Good-will

2. Liability and Proprietorship Accounts

Accounts Payable
Notes Payable
Notes Receivable Discounted
Loans Payable
Mortgages Payable
Wages and Salaries Accrued
Interest on Notes Payable Accrued
Interest on Mortgages Payable Accrued
Taxes Accrued
Reserve for Depreciation
Reserve for Bad Debts
Surplus
Capital Stock

3. Income Accounts

Sales
  Store Sales
  Dealer Sales
Discount on Purchases
Rentals

4. Expense Accounts

Merchandise Purchases
In-Freight and Cartage
General Stock Issues
  Store No. 1
  Store No. 2
  Store No. 3
Inventory Adjustment
Clerk Hire
  General Office
  Store No. 1
  Store No. 2
  Store No. 3
Rent
  General Office
  Store No. 1
  Store No. 2
  Store No. 3
Miscellaneous Expenses
  General Office
  Store No. 1
  Store No. 2
  Store No. 3
Advertising
Returned Sales
Discounts Given
Storeroom and Delivery Wages
Waste
  General Stock
  Store No. 1
  Store No. 2
  Store No. 3
Automobile Up-keep
Office and Management Salaries
Stationery and Office Supplies
Postage
Telephone and Telegraph
Office Heat, Light, and Janitor Service
Legal Expenses
Interest

10. Arrangement of Ledger Accounts

The accounts as grouped above permit the usual statements to be prepared with little effort. It is not expected, however, that every accountant will find this order satisfactory to the last detail. The matter of arrangement is one for the exercise of individual judgment

The ledger accounts begin with assets arranged and listed according to availability in case of realization. Cash is first because it is available and ready for use at any time. Accounts and notes of customers come next, since they are most readily converted into cash. The liabilities are arranged much in the order in which they rank for payment and liquidation. The accrued liabilities are placed after the regular liabilities. Accounts and notes payable must usually be paid first, and capital stock is paid last of all. The expense accounts are grouped to facilitate statement preparation.

Where a bound ledger is used, it is advisable to leave several pages blank in each section for any additional accounts that may be required during the course of business. If a loose-leaf or a card ledger is used, new accounts between sections can be added as required.

11. Books and Records

The books and records suggested for a system of chain stores are as follows:

1. Buying:
   - Order Book
   - Receiving Book (double-column journal ruled)
   - Purchase Journal
   - Creditors Ledger (loose-leaf)
   - General Stock Ledger (loose-leaf)
2. Selling:
   - General Stock Book (loose-leaf)
   - Shipping Book
   - Sales Tickets for Dealers (duplicate—serially numbered)
   - Price List
   - Daily Stock Requisition
   - Dealers Ledger (loose-leaf)
   - Spoiled and Returned Goods Record

3. CASH:
   - Columnar Cash Book
   - Petty Cash Book
   - Cash Sales Journal
   - Check Books
   - Pay-Roll Book

4. GENERAL:
   - General Journal (regular form)
   - General Ledger (regular form)
   - General Ledger Trial Balance Book
   - Inventory Book
   - Insurance Register
   - Note Register
   - Storage Register

Many of these records have already been considered in other sections of this book. Their use is really self-explanatory and presents no difficulty to anyone at all familiar with branch stores and general trading. Several forms (Forms 89-97) are given here, either as variations from some already presented elsewhere or because a form for a like purpose has not thus far been considered.

STOCK LIMIT_____

STAND. ORDER_____

GENERAL STOCK RECORD

COMMODITY_____

	JANUARY		FEBRUARY		MARCH		APRIL		MAY		JUNE	
	Cost____G.P.____ Sales____%____ Price____G.P.____		Cost____G.P.____ Sales____%____ Price____G.P.____		Cost____G.P.____ Sales____%____ Price____G.P.____		Cost____G.P.____ Sales____%____ Price____G.P.____		Cost____G.P.____ Sales____%____ Price____G.P.____		Cost____G.P.____ Sales____%____ Price____G.P.____	
	IN	OUT	IN	OUT	IN	OUT	IN	OUT	IN	OUT	IN	OUT
Inventory												
1												
2												
3												
4												
29												
30												
31												
Total												
Waste												
Short Over												
Inventory												

Form 89. General Stock Record—Chain Stores

DATE _____ STORE NO._____ REQ. NO._____

DAILY STOCK REQUISITION

Please issue the following:

NAME OF ARTICLE	QUANTITY	COST		SELLING		REMARKS
		PRICE	VALUE	PRICE	VALUE	

Form 90. Daily Stock Requisition—Chain Stores

ISSUES FROM GENERAL STOCK

MONTH_____

DATE	REQUISITION NUMBER	DEALERS	STORE #1	STORE #2	STORE #3		
1							
2							
3							
4							
5							
6							
7							
8							
29							
30							
31							
TOTAL							

Form 91. Dealers Ledger—Chain Stores

SPOILED AND RETURNED GOODS

MONTH_____

DATE	STORE #1		STORE #2		STORE #3						DEALERS		GENERAL STOCK	
	Spoiled	Returned	Spoiled	Returned	Spoiled	Returned	Spoiled	Returned	Spoiled	Returned	Spoiled	Returned	Spoiled	Returned
1														
2														
3														
4														
5														
6														
7														
8														
9														
10														
28														
29														
30														
31														
TOTAL														

Form 92. Spoiled and Returned Goods Record—Chain Stores

CASH BOOK

DEBITS

DATE	ACCOUNT TO BE CREDITED	EXPLANATION	FOL.	NET CASH	DISCOUNT	CUSTOMERS	STORES COLLECTIONS	GENERAL LEDGER	DEPOSITS	
									Bank A	Bank B

CASH BOOK

CREDITS

DATE	CHECK NO.	ACCOUNT TO BE DEBITED	EXPLANATION	FOL.	NET CASH	DISCOUNT RECEIVED BY US	CREDITORS	SALARIES AND WAGES	GENERAL LEDGER	WITHDRAWALS	
										Bank A	Bank B

Form 93. Columnar Cash Book—Chain Stores (left-and right-hand pages)

PETTY CASH BOOK

DATE	EXPLANATION	AMOUNT	CAR FARE	POSTAGE	MESSENGER	CLEANING	SUNDRIES

Form 94. Petty Cash Book—Chain Stores

CASH SALES AND CASH REMITTANCES

MONTH_____

DATE	TOTAL AMOUNT	STORE #1		STORE #2		STORE #3					
		Sales	Remittance	Sales	Remittance	Sales	Remittance	Sales	Remittance	Sales	Remittance
1											
2											
3											
4											
5											
6											
7											
29											
30											
31											
TOTAL											

Form 95. Cash Sales Journal—Chain Stores

PAY-ROLL BOOK

EMPLOYEE'S NUMBER	NAME	POSITION	RATE		WEEK ENDING															
				T	Hours	Amt.	Hours	Amt.	Hours	Amt.	Hours	Amt.	Hours	Amt.	Hours	Amt.	Hours	Amt.	Hours	Amt.
				O																
				R																
				O																
				R																
				O																
				R																
				O																
				R																
				O																
				R																
				O																
				R																
				O																
				R																

Form 96. Pay-Roll Record—Chain Stores

STORAGE REGISTER

ITEM _____

	REMARKS	JANUARY			FEBRUARY			MARCH			APRIL			MAY			JUNE		
		Balance	Charges	Credits	Balance	Charges	Credits	Balance	Charges	Credits	Balance	Charges	Credits	Balance	Charges	Credits	Balance	Charges	Credits
1																			
2																			
3																			
4																			
5																			
6																			
7																			
8																			
9																			
10																			
27																			
28																			
29																			
30																			
31																			

Form 97. Storage Register—Chain Stores

CHAPTER XXXII

MAIL-ORDER ACCOUNTING

1. The Mail-Order Business

The accounting records for a mail-order business need not be complicated. Whether the business be small or large, the records used should be simple and practical. In the usual mail-order business, cash accompanies orders or else shipments are sent C. O. D.

The suggestions which follow point out the special features of the records for a mail-order business, one of medium size being taken as an illustration.

2. Records Required

The scope of the business determines the books and records to be used—generally the following:

1. General journal
2. General ledger
3. Cash receipts register
4. Cash disbursements register
5. Creditors ledger
6. Purchase order
7. Purchase register
8. C. O. D. register
9. Agent's order blank
10. Agents' record
11. Advertising record
    - Publications
    - Circularizing prospects

12. Stock record
    Goods in stock
    Goods dealt in

3. Stock Record

The chances are that goods dealt in are either kept on hand or are such as can be secured from some easily accessible source of supply. The purchase department, therefore, need not have an elaborate system of records. It will be advisable, however, to keep a complete record of the goods in stock, so as to control purchasing.

INDEX CARD FOR STOCK

Name of Article_____ No._____

Manufactured By	Stock Limit	Price		Advertising Medium
		Cost.	Selling	
.....	.....	.....	.....	.....
.....	.....	.....	.....	.....
.....	.....	.....	.....	.....
.....	.....	.....	.....	.....
.....	.....	.....	.....	.....
.....	.....	.....	.....	.....

Form 98. Index Card for Stock—Mail-Order House

In addition, a record (Form 98) should be kept preferably on a card index, of all goods handled. Each article should be given a number and be handled and referred to by that number at all times. The number should appear on all orders; it should be employed somewhere in each advertisement concerning the article, regardless of the medium used. In this way the number becomes the symbol of the article in question, the distinctive mark by which it is always known.

4. Agent's Order Blank

If the business is conducted partly through agents, as in the case of some concerns of moderate size, each of the agents employed will be supplied with order blanks on which to send in from time to time a list of the articles he needs. As mentioned above, cash should accompany the order or else the shipment should be sent C. O. D. If these order blanks are made in duplicate, the agent will be able to keep one for his file, sending the other to the main office. It is unnecessary to present a form of order blank here. In appearance it will not differ from order blanks in general use, unless it is columnarized so that each column can be headed with the name of the article required.

5. C. O. D. Register

When an agent or a customer does not pay cash, the goods are sent to him C. O. D. Every C. O. D. sale should be entered in a C. O. D. register (Form 99).

C. O. D. REGISTER

Date	Name and Address	Amount		Date Received	Remarks
		Due	Received		
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....

Form 99. C. O. D. Register—Mail-Order House

The register is columnarized to show date of sale, name and address of person sending in order, amount of the order, amount received from C. O. D. orders, and date

payment was received. At the end of a selected period, week or month, the register is examined and the balance outstanding is determined. This outstanding balance, plus the cash received during the period, gives the total of C. O. D. sales.

6. Purchase Register

The purchase register here, as in any other business, is used to keep account of goods purchased. It is columnarized in the regular way to give full information concerning purchases made. If creditors ledger accounts are not kept, a column may be added to the register to show the date when payment is due on the order, and another to show the date paid. The open "Paid" columns will then show creditors' balances due, and these balances may be checked against the unpaid bills file.

7. Creditors' Accounts

A card ledger may be used for creditors' accounts. There will probably not be a large number of houses furnishing goods unless the business is of large size. The entries to creditors' accounts come from the purchase register—or directly from invoices—and from the cash disbursements register. It is possible, where only a half-dozen or so houses furnish goods, to subdivide the amount column on both the purchase register and cash disbursements book so that each column total represents a charge, or a credit, to a creditor's account. In this way individual posting would be eliminated, and even the creditors ledger could be dispensed with, as has already been suggested.

8. Cash Receipts and Disbursements

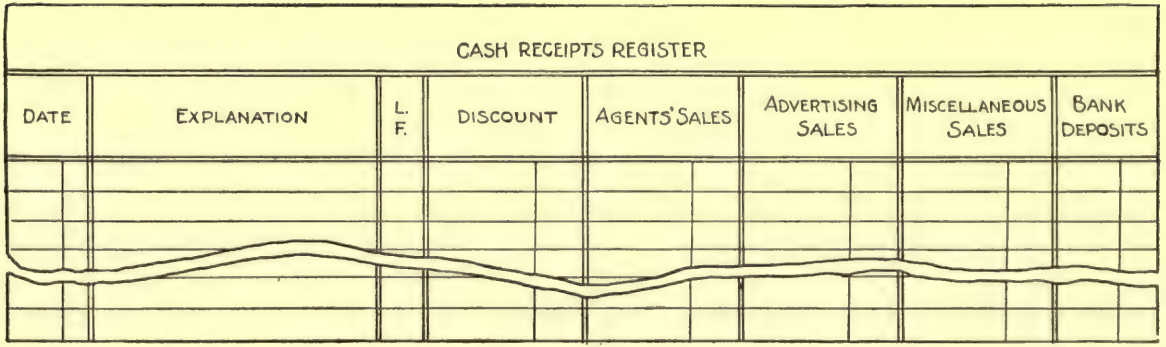
It may be unnecessary to have the cash book divided into a receipts register and a disbursements register. But the receipts are apt to be numerous, whereas the disbursements will undoubtedly be relatively few in number and in that case separate registers are advisable. The receipts register may be ruled to show the total sales of each article through each of the various sales agencies, if the articles dealt in are relatively few in number. Otherwise, the sales of all articles through the various sales channels should be entered in the record by channel grouping only (Form 100), as for example:

Agents' sales
General advertising sales
Miscellaneous sales

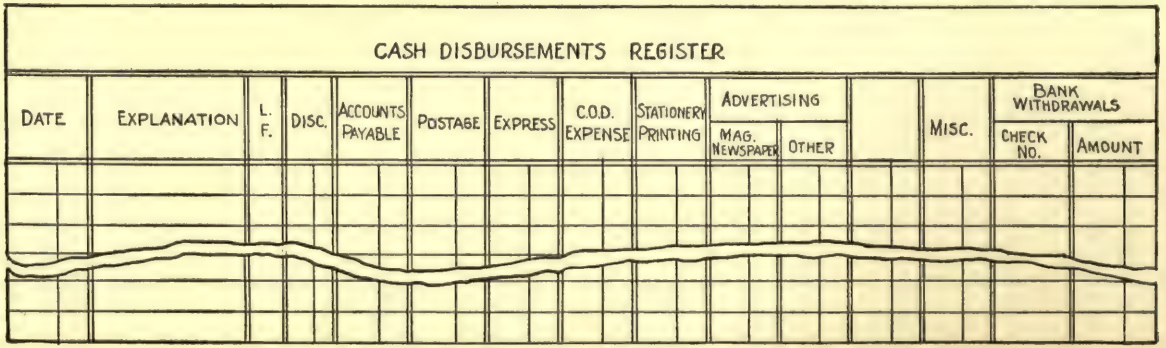
A recapitulation sheet could be kept for each day, showing cash receipts by articles, grouped as suggested above. From this recapitulation sheet, the three major groupings can be secured for entry on the cash receipts register.

The cash disbursements register (Form 101) may be ruled to provide charge columns for the various expenses incurred, such as:

Postage
Express
C. O. D. expense
Stationery and printing
Advertising
  Magazine and newspaper
  Other
Miscellaneous



Form 100. Cash Receipts Register—Mail-Order House



Form 101. Cash Disbursements Register—Mail-Order House

9. Advertising

An advertising schedule should be made use of, so that definite results from various mediums may be noted. This schedule would show the medium used, its cost, and the returns. Each advertisement used should be keyed, so that when inquirers write in, the medium in which the advertisement was seen will be given credit for the business it secures. When possible advertising costs should be charged against the article advertised.

CHAPTER XXXIII

PROFESSIONAL ACCOUNTS

1. Introductory

One of the simplest cases to which the principles of constructive accounting may be applied is the office accounts of a professional man: an attorney, physician, accountant, etc. Each undertaking in which a professional man engages needs to be recorded, but simplicity must be the dominating feature. If the professional man keeps the books himself, little more in the way of records is required than the office blotter, to be described presently, and a ledger in which to keep an account with each client. If a bookkeeper is employed, the records should be more complete. The discussion in this chapter is concerned with the records for an attorney's office which are kept by a bookkeeper. Many of the ideas expressed may, however, be adopted for use by other professional men.

2. The Office Blotter

A successful and widely used system centers about the office blotter. An attorney's time each day must be accounted for and each client must be charged for any time employed on his case. The office blotter or daybook is useful in this connection (Form 102). The entire office force should have access to it and the entries therein should be made immediately after the call, visit, attendance at court, or other service is completed. It

should be printed in diary form, each day being given a page.

OFFICE BLOTTER

Monday, January 6, 1919

Caller	Nature of Business	Interviewed By	Remarks	Time
.....	.....	.....	.....	.....
.....	.....	.....	.....	.....
.....	.....	.....	.....	.....

Form 102. Attorney's Office Blotter

All services of whatever nature are entered on the office blotter. The purpose of each interview is entered in the "Nature of Business" column. Any further explanation is entered in the "Remarks" column. As each item on this blotter is entered in the accounts, it is checked off in the "Time" column by the bookkeeper. The use of the blotter can conveniently be extended to cover all events of the day, including even calls and telephone messages which may at the time seem to have no business or professional significance. When so extended, the blotter becomes evidence of the best kind whenever it is necessary to show the transactions of any day.

3. Card System for Laying Out Daily Work

A card system is used in some of the better organized law offices for laying out the daily work and noting office requirements. The material recorded is taken from the office blotter and from memoranda furnished by the office employees. In some cases original account-

ing entries may be made on these cards, the blotter being dispensed with. The cards may be plain, about 3 by 5 inches in size. They are arranged by days and can be filed ahead in a card index cabinet under any day or month. If the card index serves the purpose of both tickler and blotter, entries are made from the cards to the cash book, journal, and the ledger. At the close of each day a careful examination of each card is made to ascertain any requirements for future work or consultations, and the necessary information is entered upon another card. This is placed in the calendar card index, to come up on the day set. All used cards are preserved in chronological order.

4. The Time Card

If the card system as outlined is not used for original entries of charges, but only for laying out the daily work, the original charges may be taken care of by a perforated time card. As soon as any work for which a client is to be charged is finished, the time spent should be recorded on the card. Form 103 will answer the purpose.

When work is to be charged, the attorney writes in the first column the name of the client against whom

TIME CARD

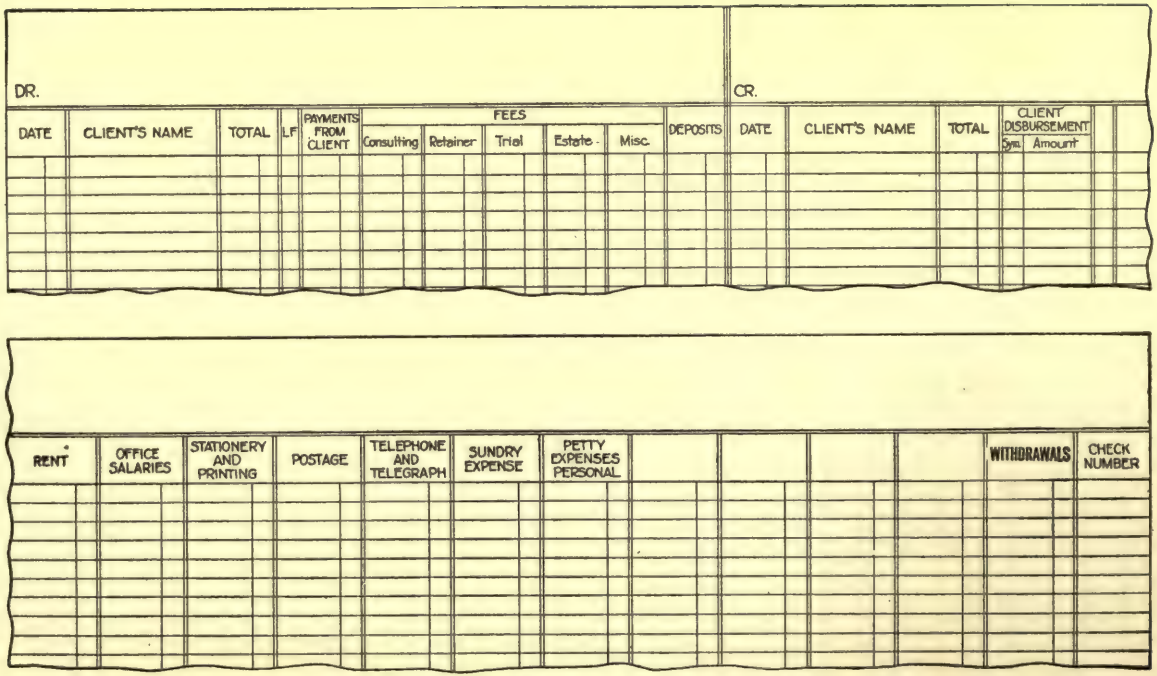
Account Charged	Date	Explanation	Time	Charge
.....	.....	.....	.....	.....
.....	.....	.....	.....	.....
.....	.....	.....	.....	.....

Form 103. Attorney's Time Card

the charge is made; the date follows, and then in the explanation column just what has been done and, if necessary, the name of the case. The time column shows time spent on this particular work, and the amount receivable is entered in the charge column. This time sheet should be made in triplicate; the original kept as a complete record of work from day to day and the two other copies given to the bookkeeper. The first duplicate is the copy from which entries are made to the other office records; the second, which is perforated horizontally, is torn off along the perforated lines. These copies are filed according to clients, by name, or by number, if it is the custom to give each client a number. All charges and the record of time spent for each client are thus assembled in one place. When a case is completed, or before if desired, a comparison of the ledger account and the time slip of each client will determine the accuracy of the total charges.

5. The Cash Journal

The cash journal (Form 104) may be used to record all receipts and payments, including money advanced for a client. The debit side shows date, client's name, total, payments received from client to cover advances made for him, fees received divided into classes, and deposits. The totals of fees received and repayments of advances are credited to the client's account upon the ledger. The credit side shows date, client's name, total, cost symbol, costs paid, various office expenses paid, check number, withdrawals from bank. One feature, it will be noticed, is the disbursement symbol column. Some attorneys believe that time is saved



Form 104. Attorney's Cash Journal (left- and right-hand pages)

in writing explanations by making a list of all usual disbursements which are made in connection with a client and assigning to each a symbol which may be entered in the appropriate column of this form. However, it seems questionable as to whether time is really saved by such a procedure. Disbursements are varied and a symbol chart may become a formidable looking document difficult to apply automatically. A simple explanation entered after the client's name should prove more satisfactory.

6. Cash Payments

No cash should be paid out except upon proper voucher or receipt. Office employees receiving money with which to make payments on behalf of clients should give to the office a receipt, which is given back to them when they turn in the regular receipts from the person to whom the money is paid.

A petty cash system is used for such items as carfare, etc., paid in cash. Petty cash payments may be recorded in a memorandum book and the amounts adjusted and repaid monthly.

7. The Ledger

A two- or three-column ledger may be used; if a three-column ledger, the third column contains the balance. In the ledger each case should be given a separate page. At the top of each account all necessary data covering the case should be entered, so that there will be no need to refer elsewhere. Accounts are opened from information given on the blotter, or card index, if used.

8. The Fee Book

A fee book (Form 105) is sometimes used for charging fees. Entries are posted from it at the end of each

H. M. MEYER, ATTORNEY.

January 2, 1919.		CONSULTG	RETAINER	TRIAL
H. S. Brown Consulting fee, case of Jones vs. Brown	$200.00	$200.00		

Form 105. Attorney's Fee Book

month in total. Sheets should be in duplicate. The original, which is narrower than the duplicate, is given to the client as his bill. The duplicate, in addition to the material contained on the original, has columns for classification of fees.

9. Estate Records

An attorney should keep accounts with estates in course of settlement. Whatever record is used for this purpose should take up all income and expenditure without the use of any other books, and without running the transactions through the attorney's own records. There are several ways of doing this. One method is that described in the following chapter.

10. Collection Accounts

Every attorney does a considerable collection business, especially in the beginning of his practice. Care should be observed in handling accounts placed with

him for collection. Money received from debtors should be carefully accounted for, and in no case should such money be merged with the regular office cash.

A simple card system may be maintained for collection accounts. The debtor's name is written at the top, with the terms under which he has agreed to pay, and the name and address of the client for whom collections are to be made. The body of the card should contain spaces in which are entered the amounts collected, the deductions for commissions, and the amounts remitted to the client.

CHAPTER XXXIV

ESTATE ACCOUNTING

1. Distinctions in Estate Accounting

The work of an executor, an administrator, or a trustee, involves great responsibility. The executor and the administrator are court officers. They wind up the estate of a decedent by collecting his property, paying all debts due therefrom, and distributing the remainder in accordance with the terms of the will, or the provisions of the law if no will exists.

When a person is named in a will by the testator to carry out the provisions of the will, and is approved by the court, he is called an executor. If the will names no one to distribute the estate, or if the person therein named cannot qualify, the court then appoints some one for this office. Such an appointee is called an administrator.

A trustee holds legal title to certain property for the benefit of another. The title is held subject to an obligation to hold, use, or dispose of the property in accordance with the terms of the trust.

Since the duties of all these officials are essentially the same, the brief discussion of estate accounting here presented will meet the requirements of any of them.

2. Authority to Act

A will must be admitted to probate—approved by the court—before it is of effect; this usually involves:

1. Filing a petition to admit the will to probate.
2. Notifying all persons interested to appear on a certain day.
3. A hearing upon this specified day to determine the legality of the will.
4. Formal decision by the court that the will is admitted to probate as a valid will.

The executor named in the will must be approved as to age, residence, and character, and then has issued to him letters testamentary, which give authority to act. Usually it is necessary for the executor to file a bond. The will may state, however, that no bond shall be required. The authority of the executor comes through the will by way of the letters testamentary. Where there is no will an administrator is appointed to whom letters of administration are issued as his authority to act. His authority thus comes direct from the court. The trustee usually has no letters issued him. His authority to act comes through the will or deed of trust, and he acts without formal appointment as a court officer.

The executor is a sort of trustee for the beneficiaries, and his duty is usually confined to collecting the assets and the income of the estate, paying the claims existing against the estate, and the necessary expenses, and distributing the remainder to the beneficiaries.

3. Executor's Duty as to Assets

The first duty of the executor is to make an inventory of the personal property of the estate over which he is to have control. This inventory is the foundation of his accounts. All assets that come into his possession

when he enters upon his duties should be mentioned in detail, their character and appraised value being set out. Assets considered worthless should be included in the inventory as well as those of value, but the fact that they are considered worthless should be stated. The inventory is filed in the probate court, or whatever court corresponds to the probate court. The filing of the inventory establishes prima facie the property values for which the executor is responsible, and places the burden of contradiction upon those who claim any incorrect valuation or any omissions. Creditors usually have a year in which to file their claims against the estate.

Assets discovered after the filing of the inventory are included in the report of the executor in a separate schedule of "New Assets." Their treatment subsequent to discovery is the same as if they were part of the original inventory. If assets happen to be in possession of persons who refuse to give them up, legal proceedings must be started to secure them. Reasonable care must be exercised by the executor over the assets in his possession, care such as an ordinarily prudent man would exercise in regard to his own property.

Cash belonging to the estate should be deposited in the name of the estate, as "Estate of ..... by X, Executor." If the bank in which the funds are placed is of recognized standing, this procedure will protect the executor in case of loss. If cash is deposited in the executor's name without any indication that it belongs to the estate, the executor is personally liable for any resulting loss, regardless of the care he has exercised in the selection of a depository. Usually an executor may only collect and distribute cash; he may not invest it.

The assets of the estate should be realized with diligence. If more money is secured in the realization of an asset than the inventory amount, the excess should be placed in the proper schedule of the final account. On the same plan, decreases on realization must be shown in a separate schedule, with the explanation for the decrease attached. In case there is likely to be any material loss on a sale, the authority of the court should be secured for the transaction. In this way the executor may protect himself from any personal liability which otherwise might be asserted against him.

4. Executor's Duty as to Debts and Expenses

The administration and funeral expenses are preferred over all other claims. After these are paid, assets of the estate must be applied to payment of debts existing at the time of the decedent's death. Such debts include taxes, judgments, and ordinary claims. Since the decedent's accounts may not disclose all debts owed by him, the executor is allowed plenty of time to bring them to light, and is usually permitted, although not legally obliged, to advertise for all creditors to present their claims. Assets should be distributed to legatees for their share according to the will only after the proper legal time has elapsed. If this should be done before the expiration of this time, and a creditor should present a valid claim before the expiration of the time limit, the executor would be personally liable. Legacies are payable from the personal estate unless the will provides that real estate may be sold to satisfy them. Specific legacies are paid first, and general legacies second; if the assets are not sufficient in amount for a complete

payment of the general legacies, each general legacy is cut down pro rata.

5. Principal vs. Income

The two essential elements involved in the accounting of an executor are principal and income. The principal is represented by the original inventory of the estate, and its subsequent increase, according to court rulings as to what is principal. The income is that which has been produced by the estate, so that it can in no way be considered as part of the capital or principal.

The one serious difficulty confronting the executor is in deciding what is principal and what is income. Court decisions are much at variance on this point, and also the courts sometimes disagree with accountants in their interpretation. The distinction between principal and income is most important when there is a remainderman to whom the estate eventually goes. (If the income of a property goes to one person for a term of years or for life, and then the property itself goes to another person, this final owner is called the "remainderman.") If this situation exists, any doubt as to whether an item be principal or income is good ground for referring the matter to the court for a ruling. When no life interest exists, the question is not so important, since eventually everything goes to the same person or persons.

If the distinction commonly made between the asset accounts and the revenue accounts of a commercial concern be borne in mind, the difficulty will be eliminated in many cases, since this distinction corresponds closely to that between principal and income.

6. Records

No system of accounting for the executor is prescribed by law. Usually he may keep accounts as he sees fit. Since his duty is to realize certain assets and pay certain liabilities, his record-keeping may be very simple, so long as from the records kept he is able to produce all the information required by the court. The simplest form possible is usually the best, and although any correct form suffices, records kept on the double-entry basis will be of greater convenience than those kept by single entry; they are more scientific, and may more readily be audited.

The books required are a journal, cash book, check book, and ledger. Such accounts are opened in the ledger as will facilitate the preparation of the schedules which the executor must present to the court when he makes his accounting. All accounts should contain full and complete details, so that the executor will be able to make his final accounting from the ledger itself without delay and without referring elsewhere. The journal contains that which cannot be entered in the cash book, and memorandum entries concerning important facts which it is desirable to record. A journal entry opening an account with each inventory item is made, and the total of the inventory is credited to the estate.

As the assets are converted into cash, the respective asset accounts are credited and Cash is debited. If an asset does not realize its inventory value when converted into cash, the decrease is debited to an account entitled "Decrease of Principal." This latter account forms the basis of a separate schedule when an accounting is ren-

dered to the court. On the other hand, if an asset realizes more than its inventory value when converted into cash, the increase is credited to an account called "Increase of Principal," which also forms the basis of a separate schedule when an accounting is rendered to the court.

Administration expenses and debts of the testator are kept separate one from the other. Furthermore, administration expenses are separated into those pertaining to principal and those pertaining to income. As income is collected, it is credited to a separate income account.

7. Final Accounting

The executor must render to the court a statement of his transactions in the form of a final accounting. This accounting shows the amount of cash and property received by him, what he has done with it, and the remaining balance, if any. The forms vary in the different states, but since that of New York is complete and comprehensive, it is used below for the purpose of illustration.

The account of an executor as required by the Surrogate's Court of the County of New York, State of New York, is about as shown in Form 106.

Each schedule is signed by the executor, as "Executor of the Estate of ....."

8. Duties Subsequent to Final Accounting

When the accounting has been affirmed, the ledger is closed. All accounts, except those representing cash and other assets left on hand, are closed into the Estate

1. Preamble. (This states that the executor hereby renders the following account of his proceedings as the executor of the estate of .....; that an inventory of the value of $..... was filed on.....; that certain schedules are submitted below.)

2. Summary of the account:

I CHARGE MYSELF AS FOLLOWS:

With amount of inventory.....	$.....
" increase, as shown by Exhibit A	.....
Total	$.....

I CREDIT MYSELF AS FOLLOWS:

With amount of loss on sales, as per Schedule B	$.....
" debts not collected, as per Schedule B.....	.....
" expenses per Schedule C.....	.....
" debts of testator per Schedule D	.....
" payments to legatees per Schedule E.....	.....
Total	$.....
Leaving a balance of.....	$.....

to be distributed to those entitled thereto, subject to the deductions of the amount of commissions, and the expenses of this accounting. The said schedules, which are signed by me, form part of this account.

Form 106. (a) Form of Executor's Account—New York

SCHEDULE A

DATE	CASH From Whom Received and All Necessary Information	Sales of Property and Debts Due Deceased	RENTS	INTEREST	DIVIDENDS	TOTAL

SCHEDULE B Part 1

Property Mentioned in Inventory, Lost by Accident Without Any Wilful Default or Negligence; the Cause of Its Loss and Appraised Value

DATE	DESCRIPTION	PARTICULARS	APPRAISED VALUE

SCHEDULE B Part 2

Decrease of the Value of Any Assets of Deceased Mentioned in Inventory

DATE	DESCRIPTION	INVENTORY VALUE	PROCEEDS OF SALE	DECREASE

SCHEDULE B Part 3

Debts Mentioned in Inventory Not Collected or Collectible, With Reasons Why They Have Not Been Collected and Are Not Collectible, and Their Appraised Value

PARTICULARS	APPRAISED VALUE

Form 106. (b) **Form of Executor's Account—New York (Continued)**

SCHEDULE B Part 4

Personal Property Mentioned in Inventory Unsold; and the Reasons of the Same Being Unsold, and Its Appraised Value

PARTICULARS	APPRAISED VALUE
.....	.....
.....	.....

SCHEDULES C, D, AND E

DATE	NAMES CASH To Whom Paid, with Reasons and Object of Expenditure	SCHEDULE C EXPENSES	SCHEDULE D Debts Owed by the Deceased	SCHEDULE E Paid to Legatees, Widow, or Next of Kin of Deceased	TOTAL
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....

SCHEDULE F Part 1

PERSONS ENTITLED AS WIDOW, LEGATEE, OR NEXT OF KIN TO THE DECEASED TO A SHARE OF THE ESTATE	RESIDENCE	DEGREE OF RELATIONSHIP
.....	.....	.....
.....	.....	.....

SCHEDULE F Part 2

NAMES OF MINORS	NAME OF GUARDIAN	RESIDENCE OF GUARDIAN
.....	.....	.....
.....	.....	.....

Form 106. (c) Form of Executor's Account—New York (Continued)

SCHEDULE G
Statement of All Other Facts Affecting the Estate Not Included in Any Other Schedule

Form 106. (d) Form of Executor's Account—New York (Continued)

account. The balance of this account is a credit and should exactly offset in amount the total balance found in the asset accounts still open.

Finally, before paying the legacies to the legatees, the executor should be careful to see that he has provided for the payment of the income tax and all inheritance taxes.

CHAPTER XXXV

STOCK BROKERAGE

1. Accounting Status

The relation of broker and client is that of principal and agent. The broker is a special agent authorized by his client to buy or sell securities. The relationship is governed by the customs and usages of the business. So far as the records of the broker himself are concerned, the recording of purchases and sales of securities involves but few principles. The records are similar to those of a factor who is commissioned to sell consigned goods except for the fact that in the brokerage business a speculative element enters into consideration, as when a client advances only a part of the capital necessary to finance a trade.

2. Securities Handled on the Exchange

Only securities of corporations which have complied with the stock exchange regulations are listed and handled on the exchange. These regulations, the object of which is to safeguard the investor as much as possible, require the filing of a balance sheet and an income statement of recent date when an application is made to list the securities of the corporation on the exchange. All active stocks must be registered with some acceptable registering agency and the certificates must be engraved so as to prevent counterfeiting. No guarantee is made that any particular stock has a certain value.

3. Trading on the Stock Exchange

Trading on the stock exchange begins at 10 A.M. and stops at 3 P.M. Only those houses having membership are allowed to have representatives on the floor of the exchange. Authority to sell and buy is transmitted by telephone from the office of the broker. Transactions of 100 shares or over are given publicity by the ticker which shows on a strip of paper, called the "tape," a short description of each transaction, the number of shares, and the price paid.

The record of a trade is a memorandum called a clearing house ticket, made by both buyer and seller, and then exchanged between them. It contains a description of the subject matter, number of shares, price, and the name of the other broker concerned. The writer signs the sheet with his initials. As soon as the record is prepared, a report is telephoned to the offices of the brokers who are parties to the agreement, and later the seller compares with the buyer the transaction as he has recorded it. This is done at the buyer's office not later than one hour after business has closed. Usually, delivery of securities and payment must be made before 2:15 P.M. on the day after the sale, except that when securities are sold for cash the transaction must be completed the same day. Again, sales are at times made "at three days" or "at buyer's or seller's option." When made at buyer's or seller's option, the sale is for not less than four days nor more than sixty days.

4. The Stock Exchange Clearing House

Business on the stock exchange is so heavy that it is impossible to make an immediate delivery for every

trade. To meet this condition the stock exchange clearing house has been established.

The principle of the stock exchange clearing house is the same as that of the bank clearing house. However, the situation is more complicated because securities are cleared which have been sold at different prices, and the payments offset the receipts. Shares of active stocks in multiples of one hundred shares are handled. In all other transactions actual delivery must take place. A price is set by the clearing house in a round number of dollars, the price being as close to the day's closing price as possible, and settlements are made at this price. Each broker is notified to whom he must deliver and from whom he is to receive a net balance of securities. Since a broker many times buys and sells the same security for clients, the shares he is to receive on account of purchases are offset against those he is to deliver on account of sales. A net amount is therefore arrived at which he is to receive from or deliver to other brokers through the clearing house.

5. The Clearance Sheet

The transactions as indicated above are entered on a clearance sheet. This sheet, with clearing house tickets from other brokers, "Balance to Receive" and "Balance to Deliver" tickets, and either a draft on the clearing house or a check in its favor, must be delivered within four hours of the close of business on the day the sales and purchase contracts are made. Friday and Saturday are treated as a single day, the sheet being filed on Saturday.

A clearance sheet is shown in Form 107, which will

CLEARING HOUSE OF THE NEW YORK STOCK EXCHANGE

New York_____ Office Address_____ Clearing Sheet of A. Carson & Co.

Receive From	Shares	Stock	Price	Amount	Deliver To	Shares	Stock	Price	Amount
Brown & Co.	200	B'klyn R. T.	26½	$ 5,300.00	Gray & Son	100	B'klyn R. T.	27	$ 2,700.00
Doe & Co.	400	Northwestern	137	54,800.00	Tal & Co.	400	Northwestern	138	55,200.00
Roe & Co.	500	U. Pacific	125	62,500.00	John & Co.	300	U. Pacific	125½	37,650.00
Fuland & Co.	200	L. & N.	91	18,200.00	Smith & Co	200	Wabash	43	8,600.00
				$140,800.00					$104,150.00
Balance to Deliver	200	Wabash	43	8,600 00	Balance to Receive	100	B'klyn R. T.	26	$ 2,600.00
						200	U. Pacific	110	22,000.00
						200	L. & N.	91	18,200.00
	1,500					1,500	Check		2,450.00
				$149,400.00					$149,400.00

Form 107. Stock-Broker's Clearance Sheet

serve to illustrate the manner in which the sales and the purchases of a firm are balanced off each day. The amount columns show purchases by the firm in question to be $140,800, and sales to be $104,150. The difference, $36,650, is owed by the firm and is paid in this manner: Payments are made to the brokers from whom shares are received; the total of these is $42,800. Payment of $8,600 is received from the broker to whom shares are delivered. At this point $34,200 of the balance owed by Carson & Company has been paid. The remaining $2,450 is paid by check to the clearing house.

6. Accounting Records

Brokerage accounts, in general, are uniform in the different brokerage houses, and the method of keeping them is essentially the same everywhere. The problems encountered by one house are practically the same as those met by all others and their solution is uniformly well established.

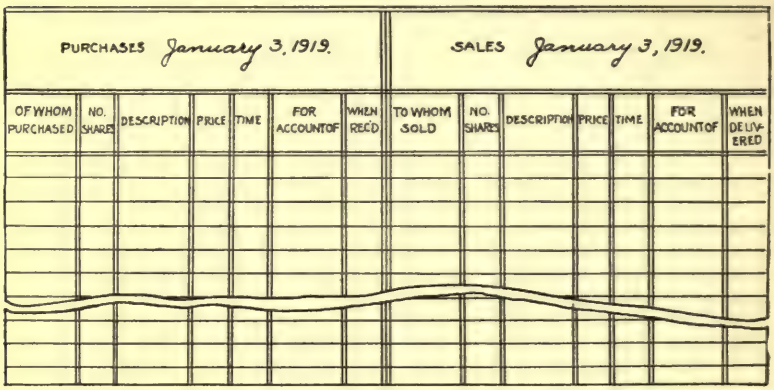
The records usually found in a concern buying and selling securities are as follows:

1. Purchases and sales records
2. Blotters
3. Ledgers
   - General
   - Customers
   - Securities or stock record
   - Private
4. Borrowed and loaned books
   - Stocks
   - Money
5. Margin record

6. Stock transfer register
7. Vault list
8. Revenue tax register

7. Purchases and Sales Records

The purchases and sales book (Form 108) is the first to be used in recording a transaction. Because stocks



PURCHASES January 3, 1919. SALES January 3, 1919.

OF WHOM PURCHASED	NO. SHARES	DESCRIPTION	PRICE	TIME	FOR ACCOUNT OF	WHEN RECD	TO WHOM SOLD	NO. SHARES	DESCRIPTION	PRICE	TIME	FOR ACCOUNT OF	WHEN DELIVERED

Form 108. Stock-Broker's Purchases and Sales Record

are classified into two groups, two separate records are used: (1) for clearing house issues; (2) for issues not handled by the clearing house. (See § 4.) Each day's transactions are grouped chronologically.

8. The Blotter

The blotter (Form 109) is a book of original entry found in nearly all brokers' offices. In appearance, it resembles a columnar journal, yet differs from the regular journal in that one page is given over to debits (the left) and one page to credits (the right). Interior

LEFT PAGE

TO RECEIVE

DATE _____

BROKER BOUGHT OF	NO. SHARES	DESCRIPTION OF SHARES	PRICE	AMOUNT PAID	COM. CR.	INT. DR.	TOTAL LEDGER CHARGE	FOR ACCOUNT OF	SECURITY NUMBERS

DATE _____

RIGHT PAGE

TO DELIVER

BROKER SOLD TO	NO. SHARES	DESCRIPTION OF SHARES	PRICE	AMOUNT RECEIVED	COM. CR.,	STAMP CR.	INT. CR.	TOTAL LEDGER CREDIT	FOR ACCOUNT OF	SECURITY NUMBERS

Form 109. Stock-Broker's Blotter (left- and right-hand pages)

columns are added to meet the requirements of the office in question.

Since it is the rule of the stock exchange that security transactions shall be settled upon the next following business day, as was mentioned before in this chapter, two days' transactions are worked on at the same time in a broker's office. Purchase and sales orders are entered in a purchase and sales book the day received. The explanatory columns on the blotter are filled in the day the purchase or sale contract is made. The amount columns are filled in when delivery is made, because then the trade is completed. Some brokerage houses make the first two entries at one time.

Since the blotter is in use so much, it is either a loose-leaf record, or separate books are used on alternate days of the week. Every trade not completed on the day set is marked "failed" on the blotter and carried forward to the next day. This procedure goes on until the transaction is closed entirely.

Cash items are entered on the blotter in columns which are really memorandum columns only, since the bank accounts give the cash amounts used for statement purposes. Postings are made from the total amount and "For Account of" columns. Ledger debits of all kinds are entered on the left page of the blotter. Ledger credits are entered on the right page. The cash balance as shown by the bank accounts at the beginning of the day is entered in the amount received column on the right page, and the balance at end of the day in the amount paid column on the left page. This procedure balances the columns and has the same effect as if cash was entered on the record in detail debits and cred-

its. Finally, the amounts of commissions, interest, stamps, as shown in the inside columns, are carried into the total amount columns.

A fee of $7.50 to $20 per hundred shares is charged every time stock is purchased or sold, unless the broker is acting for a member of the exchange. Then the fee is lower. In New York, a state tax of 2 cents a share is charged the seller. Stamps representing the payment of this tax must be attached to every transferred stock certificate. Interest is charged the client on the debit balance of his account. Any dividends received are credited to his account.

9. "Longs" and "Shorts"

Customers who buy expecting an increase in market price which will enable them to sell again at a profit, are "long," and those who sell expecting a decrease in market price which will enable them to repurchase at a profit, are "short" of the securities involved. These are the two kinds of speculative accounts. When a broker opens a speculative account for a client, he usually requires the deposit of a "margin." This margin may be more than 10% if the broker is doubtful of his client's ability to keep his margin up to the proper point should the market go against the customer. Since exchange sales are never made on credit, the broker must get the cash necessary to complete the purchase. The client has furnished, say, 10%. The broker takes his client's security, and under the law of bailments and the usages and customs of the business, he pledges this security on a call loan for 80% of its market value. He has now 90%; the other 10% he supplies himself.

10. The "Long" Account

Each month customers' accounts are balanced, and a statement of account is sent each one. After closing, a "long" account would look somewhat like the one given below (the figures are fictitious). The broker has purchased for John Smith the various stocks shown on the debit side of the account, charging him the usual commission. Interest for the month on the account balance is charged at 6%. Cash margins have been put up during the month to the amount of $6,010. The account has been credited with a sale of 200 shares Northwestern with the commission and tax deducted. The account balance shows that John Smith owes his brokers $108,010.90. When this amount is paid there will be delivered to him the various stocks held for his account.

JOHN SMITH—LONG ACCOUNT

1919			1919		
Jan. 4	200 Bklyn R. T.—26½ & Com.	$ 5,330.00	Jan. 4	Cash	$ 530.00
9	400 N. Western —137 & Com.	54,880.00	9	Cash	5,480.00
23	500 U. Pacific—125 & Com...	62,600.00	22	200 N. Western —138 less Com. & Tax.	27,556.00
29	200 L. N.—91 & Com.....	18,230.00	31	Balance	108,010.90
31	Interest 6%...	536.90			
		$141,576.90			$141,576.90
Feb. 1	Balance	$108,010.90			
	200 Bklyn R. T.				
	200 N. Western				
	500 U. Pacific				
	200 L. & N.				

Of course, the true condition of this account may not be as represented. The value of the undelivered stocks as at January 31 must be determined, since they represent what the broker is holding as guaranty for the balance due him. The actual value of these stocks subtracted from the account balance will show the amount really owed the broker by John Smith.

11. "Short" Transactions

One who sells "short" for future delivery does not own that which he is selling. If he does not intend to deliver, but merely to pay or receive any difference in market price at the time of delivery, it is a mere gambling transaction, and the sale is held illegal. Therefore, either actual or constructive delivery must be shown. An intent to deliver must be implied. Such an intent is considered to be present in the clearing house procedure.

One who sells short must borrow from someone else that which he himself does not possess in order to make his sale legal. The broker does this for his client. He goes out in the open market and borrows the stocks required, promising to return them upon demand at the price originally paid, regardless of the market value on the date the return is made. These transactions are handled and reported like regular sales. The broker who borrows the stock charges Borrowed Stocks and credits Cash, while the one from whom he borrows charges Cash and credits Loaned Stocks.

Interest is paid to the borrower of stocks on his balance in the possession of the broker who lends the stocks. This interest is at a rate agreed upon and de-

pends upon the existing call loan rate and the supply of the particular security which may be borrowed. The person who sells short must be sure that he can find someone who will lend him the required securities when time for delivery arrives. Otherwise, his return on money advanced will be low, and he may even be required to pay a premium. But one who lends secures 100% of market value of the security loaned, instead of the 80% ordinarily received.

12. The "Short" Account

After closing at the end of the month, a "short" account would look somewhat like that given below. Henry Barber sold 200 shares of Northwestern short at 138, that is, through his broker he agreed to sell this stock to one person, and then borrowed it of another person in order to meet his engagement. Five days later, when he was compelled to return the stock to the lender, the market had risen and Barber had to pay 139, buying through his broker. The broker settled the account by paying Barber $2,476, which it will be noticed is $284 less than the sum he had advanced as margin. Of this loss, $200 was, of course, due to the increased price of the stock; the remainder represented two commissions and one tax. At a later date, Barber put up a margin of $1,820 to sell L. & N. shares short. The proceeds of this sale are credited to him, together with his margin. Against this credit balance stands the item of 200 shares borrowed of one person and sold to another, which constitutes Barber's liability. When he goes into the market for these shares in order to repay the lender, Barber may be able to buy at less than 91,

and so gain; or he may buy at 91, and so lose only the interest on his margin and the commission he has to pay; or at more than 91, and so suffer an even greater loss.

HENRY BARBER—SHORT ACCOUNT

1919			1919		
Jan. 9	200 N. Western —139 & Com.	$27,840.00	Jan. 4	Cash	$ 2,760.00
9	Cash	2,476.00	4	200 N. Western —138 less Com. & Tax.	27,556.00
31	Balance	19,986.00	22	Cash	1,820.00
			22	200 L. & N.— 91 less Com. & Tax.	18,166.00
		$50,302.00			$50,302.00
			Feb. 1	Balance 200 L. & N.	$19,986.00

The amount of the commission is not considered at this point. Interest is not usually allowed on a short account. Dividends would be charged against it.

13. Inventories

The inventory of a broker would include the stocks and bonds in his possession. Some of these securities will be on hand in his "box," which is placed in the vault every night. Others will be pledged with banks for loans, each loan represented by a loan card showing what securities have been given the bank. Still other securities will be in the hands of other brokers. Lastly, some securities may be in transit, or in the hands of the issuing company for transfer to a new owner. Although all the securities may not actually be on hand, a complete list of them should be kept in the office.

14. The Balance Sheet

The balance sheet of a stock brokerage firm is prepared in accordance with the same principles which apply to a balance sheet for any other business. The assets are listed usually in the order of their availability in realization and the liabilities in the order in which they must be liquidated. The only difficulty comes in connection with the speculative accounts.

In closing the books of a brokerage firm at the end of a fiscal period, it is necessary to calculate the interest charged against customers up to the time of closing, in order that the complete income from this source may be known. All items payable must be accrued, such as commissions due brokers out of town, interest, probable loss on bad accounts, etc.

Below is presented a pro forma balance sheet of a brokerage firm; some of the items may require explanation. The first item of the assets, "Cash on hand and in Bank," is self-explanatory. The next item, "Due from Brokers for Stocks and Bonds Borrowed," indicates that money has been delivered to other brokers for securities borrowed from them; when these securities are returned to the other brokers they in turn will send back the amount of money which the books show is due from them. "Due from Brokers for Stocks and Bonds Not Delivered" represents practically the same state of affairs as was just mentioned except that the item represents securities which have been sold to other brokers, but not yet delivered. The records show a charge to the accounts of these brokers for the value of the securities, which is offset by credits to customers for whose accounts the securities were sold.

The next item, "Commissions Due from Brokers," needs no explanation. "Due from Out-of-Town Brokers—Our Account with Them" indicates that a certain amount is due from other brokers for cash deposited with them, or for short transactions with these brokers. "Due from Customers" represents the excess of the purchase price of securities bought for customers' long accounts over the cash that has been deposited as margins. "Stocks and Bonds—Firm Account" is similar to that just mentioned, except that the securities are not for customers, but for the firm.

"Exchange Membership" represents either the cost, or the current price if value has declined, of the firm membership in the stock exchange. Stock exchange membership is limited and the seats are very valuable. A retiring member may sell to the highest bidder the privilege of applying for membership. Therefore, such membership may be included in the balance sheet as a proper asset.

The first item of the liabilities, "Money Borrowed," represents money borrowed from various banks chiefly for the purpose of carrying the accounts of customers. The loans here are secured by collateral, the collateral being, as has been indicated previously in this chapter, stocks and bonds purchased for the accounts of customers. The next two items need no explanation since they are opposite in character to the items shown among the assets "Due from Brokers." "Due to Out-of-Town Brokers—Our Account With Them" represents transactions with out-of-town brokers with whom accounts are kept. "Due to Customers for Cash Balances" indicates that customers have amounts owed to them on ac-

count of cash deposited by them, or for profits due them from the purchase and sale of securities, when their accounts are neither long nor short of securities. "Due to Customers—Account Short Sales" shows the amount received from the sale of securities for which the customers have not yet made actual delivery. Delivery to the purchasers of the securities, however, has been made by the firm. When the customers instruct the firm to purchase the securities short, for their account, this amount due to them for short sales will be reduced by the amount paid for the securities thus purchased. "Stocks and Bonds Short—Firm Account" indicates that short transactions have been carried on for the firm. "Unclaimed Dividends and Interest" represents dividends and interest received on securities, the ownership of which cannot be determined.

JOHN HARMON & CO.

STATEMENT OF ASSETS AND LIABILITIES

December 31, 1918

Assets

Cash on Hand and in Bank		$.....
Due from Brokers:		
Stocks and Bonds Borrowed	$.....	
Stocks and Bonds Not Delivered	.....	.....
Commissions Due from Brokers		.....
Due from Out-of-Town Brokers—Our Account With Them		.....
Due from Customers		.....
Stocks and Bonds—Firm Account		.....
Exchange Membership		.....
		$.....

Liabilities

Money Borrowed		$.....
Due to Brokers:		
Stocks and Bonds Loaned	$.....	
Stocks and Bonds Not Delivered	.....	.....
Due to Out-of-Town Brokers—Our Account With Them		.....
Due to Customers for Cash Balances		.....
Due to Customers—Account Short Sales		.....
Stocks and Bonds Short—Firm Account		.....
Unclaimed Dividends and Interest		.....
Reserve for Accounts Receivable		.....
Capital and Personal Accounts—Firm Members		.....
		$.....

15. The Profit and Loss Account

It is unnecessary to explain the profit and loss account, since it is handled according to the same rules that govern the preparation of the profit and loss account for any other business. Nominal accounts are closed out in the regular way, the balance of profit and loss being transferred to the partners' drawing accounts and from there to the partners' capital accounts, according to the terms of the partnership agreement.

CHAPTER XXXVI

HOTELS AND RESTAURANTS

1. The American Plan

A hotel managed on the American plan is one in which the guest receives the use of a room and three meals a day at a certain fixed rate for the entire service. The charges for food and room are combined. The meals are table d'hote, with a regular price for each one.

The accounting system for such a hotel need not be elaborate. If it is known when a guest arrives and when he leaves, it is an easy matter to calculate his bill for board and room. Should he arrive or leave at a time when the dining room is open, he is chargeable with that meal whether he eats it or not unless the office is notified that he does not wish to eat that meal. To the charge for room and board are added the charges for any extra items. It is not difficult to keep an accurate record for such charges.

2. The European Plan

Under the European plan a complete separation is made between room service and meal service. The guest secures his room at a certain rate and may or may not take his meals at the same place. If he does, he pays the usual price for whatever he orders. This amount is paid either at the time the meal is served, or a charge slip may be made out and signed by the guest, and the amount charged to his account.

The charges under either the American or the European plan are about the same in kind, but under the European plan a more elaborate system of accounts is necessary to secure the proper checks and balances for the dining room à la carte service.

3. The Table D'Hote Dining Room

A proper check on the dining room is secured by knowing how many persons were present or should have been present at each meal. This gives a basis for knowing approximately what the cash and charge returns should be. It may be satisfactory to rely on the clerk to recognize guests who should pay and those who should be charged, or it may be necessary to give each person a ticket to be punched by someone who has that duty in charge. This latter provision would be made use of in large dining rooms.

If the waiters themselves collect from the transient guests, each waiter should be given a certain number of checks, for which number he is accountable. Some time during the serving of the meal, each check used should be stamped or punched so that it cannot be used a second time without detection. A checker should do this when the first part of the order is served, or as each course is served.

4. The A La Carte Dining Room

Where guests pay the waiters only for what they order, some checking system must be used to keep track of the food taken from the kitchen; otherwise it will be impossible to know whether or not the waiters have accounted properly for all moneys received. A checker

should be stationed where each waiter will pass him on the way to the dining room with his loaded tray. The waiter's check is stamped by the checker for the amount represented by the contents of the tray, and the same amounts are entered on a sheet which contains the waiter's number. This sheet is turned into the auditing department and the totals appearing against each waiter are checked against the cash and charge tickets turned in by the cashier.

5. Prevention of Fraud

Collusion between the checker and the waiters may be prevented by numbering all checks and then without warning changing the order of numbers so that at all times it will be impossible for the checker and waiters to know what set of numbered checks will be used.

Merely numbering the checks would not be sufficient. A waiter could easily have two sets of checks. One of these properly filled out could be given to the customer. When handed back by the customer with the amount called for, the waiter could substitute another with the same number but carrying a smaller amount, and turn in this latter to the cashier. The difference between the correct amount and that shown on the substituted check could be pocketed by the waiter.

Fraud may be detected also by comparing the purchases with the sales. A certain amount of purchases should always produce a certain amount of sales, and when this ratio has been established, a sudden change in proportion should be carefully investigated.

A restaurant not connected with a hotel should be handled in the same way. In such a case probably

all business would be done for cash, in which event there would be no charges to be accounted for.

If the American and European plans are combined, the table d'hote service should be in a room separate from the à la carte service; if they are in the same room, both services should be handled on the plan outlined for the à la carte service.

6. The Organization Plan

In planning a system of accounts for a hotel, particular attention should be given to the accurate recording of all service rendered and all expenditures directly chargeable to the guests of the house. Many dollars and many customers as well are lost each year in certain hotels because the proper facts are not available when a guest "checks out."

The front office should be arranged so that there will be no lost motion. The clerk's desk should be located in a direct line with the main entrance. Next in order comes the cashier's cage. Beyond the cashier is the bookkeeper (and the entry clerk if one be employed). Beyond the bookkeeper's location is that of the porter. These divisions would perhaps be separated by wire partitions, the first three being connected by doors, so that a full view of the whole office is secured, and so that easy passage may be had between the offices. This plan assumes a hotel large enough to have these four offices or desks.

The men work in three shifts, each averaging eight hours a day. Let us assume the following plan. Shift No. 1 begins at 7 A.M. and works until 12 M. Shift No. 2 begins at 12 M. and works until 6 P.M. Shift No. 1

returns and works from 6 P.M. until 11 P.M. Shift No. 3 begins at 11 P.M. and works until 7 A.M. At 7 A.M. shift No. 2 will relieve shift No. 3 and at 12 M. shift No. 1 relieves shift No. 2. By this means, shifts Nos. 1 and 2 work alternately one long day of ten hours and one short day of six hours, thus averaging eight hours, while shift No. 3 always has the same hours.

7. Records Required

The following records are needed in any hotel:

1. Guest register
2. Room ticket
3. Guest ledger
4. Charge ticket
5. Charge journal
6. Accumulation envelope
7. Cash receipts register
8. Check register
9. Voucher record
10. Stores record
11. General journal
12. General ledger

8. Guest Register

The first record required is the guest register (Form 110). The information desired here is the guest's name, address, room number, and rate. Each day a new page is started, the page being dated at the top.

9. Room Ticket

As soon as the guest is registered and has been assigned a room, the clerk fills out a room ticket (Form

GUEST REGISTER

February 1, 1919

Name	Address	Room No.	Rate

Form 110. Hotel Guest Register

111). These room tickets should be made of light-weight cardboard, a card of a different color being used for each day of the week. The color will show at a glance when a weekly bill is due. If the front office is arranged as indicated in § 6, the clerk fills out the ticket and hands it to the cashier.

ROOM TICKET

Room No. _____ Name _____ Bill Due

Address _____ Sunday

Arrive			Depart		
Month	Day	Time	Month	Day	Time

Rate _____ No. Days _____ Amount Due _____

Form 111. Hotel Room Ticket

10. Guest Ledger

As soon as the cashier receives a room ticket, he immediately opens an account for the guest on a num-

bered loose-leaf ledger sheet or card (Form 112). He fills in the name of guest, room number, rate, and date occupied. If the cashier is required to do this, he becomes acquainted quickly with the names of guests and is able to render better service to the hotel and to the guest.

GUEST LEDGER

Room No. _____ Name_____ No._____
Address_____

Date	Room	Meals	Telephone	Laundry	Misc.	Taxi

Form 112. Hotel Guest Ledger

Once the ledger sheet for the incoming guest is prepared, it is turned over to the bookkeeper, who will make the entries in the guest's account. The use of the guest ledger in the regular routine of recording charges against the customer is explained in § 12.

11. Charge Ticket

The following slip or ticket (Form 113) is used for sending from the various departments charges which are to be entered against the accounts of guests. Cash payments at the time of making purchases are taken care of by a cash register. So far as possible, each charge slip should be signed by the guest, although of course this cannot in every case be done; for example, laundry bills paid by the cashier for a guest would be an adequate voucher for the charge against the guest.

Charge sales must be reported to the office as soon as made by sending the checks for the charges to the bookkeeper. Otherwise the guest may leave the hotel before the charge comes through and the house will be the loser. If a cigar or news-stand is run by an outsider, whether on a rental or a commission basis, the same care must be exercised to report all charge accounts promptly to the cashier.

CHARGE SLIP

Date_____

Charge_____ Room_____

.....

.....

Signature_____

Credit (Name of dept. to receive credit)_____

Form 113. Hotel Guest Charge Slip

12. Charge Journal

The bookkeeper receives the charge slips as soon as they reach the office. He enters them in a journal from which he posts them to the guest ledger. By means of the journal, the charge sales for any day or longer period are recorded, and by means of the ledger the charges are distributed to the accounts of the various guests.

13. Accumulation Envelope

In addition to the slip presented, an envelope (Form 114) should be used in which are placed the slips and other bills as they accumulate against a guest. In one large hotel this envelope is kept in a file in charge of a special clerk who enters each item on it after the book-

keeper has entered it in the charge journal and the guest's ledger account.

When the guest is ready to pay, this clerk locates his envelope, adds the items, hands the total to the bookkeeper on a slip of paper and the bookkeeper checks this total against his account. If the bookkeeper and the special clerk are informed simultaneously of the guest's intention to depart, the bookkeeper looks up the account and calls off the room charge to the clerk who adds this charge to the total he has secured from the envelope.

ACCUMULATION ENVELOPE

Date	Item	Amount	Date	Item	Amount.
.....	.....	.....	.....	Brought Fwd .	.....
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....

Form 114. Hotel Accumulation Envelope (face)

The final total should agree with that which the bookkeeper secures from the account. By this means the two persons check each other and are often able to catch an error before it reaches the guest.

14. Cash Receipts Register

The cashier keeps a register of cash receipts in which to record payments as guests settle their accounts. When a guest is ready to leave, the bookkeeper totals the account, as just described, and hands the ledger sheet and the slip with the total to the cashier. When the guest has paid, the cashier enters the total in the proper column of the register, and makes a distribution

in the succeeding columns, the headings of which correspond with those of the ledger columns.

CASH RECEIPTS REGISTER

Date	Name	Total	Room	Meals	Telephone	Laundry	Taxi	Misc.
.....	.....	.....	.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....	.....	.....	.....

Form 115. Hotel Cash Receipts Register

The ledger sheets are then used by the auditing department in checking the cash receipts register. In order that the auditing department may conveniently work on the cashier's records, the cashier should have a separate book for alternate days, or use a loose-leaf form.

15. Expenditures

All payments should be evidenced by vouchers. For this purpose a voucher register (Form 116) and cash

VOUCHER REGISTER

Date of Invoice	In Favor of	For	No.	Date Paid	Total	Dining Room	Bar	Cigar Stand	Kitchen	Bed Room	Stories	Miscellaneous	
												Acct	Amt.

Form 116. Hotel Voucher Register

disbursements record (Form 117) should be used. The cash disbursements record may be a check register, since

CASH DISBURSEMENTS

Date	Voucher No.	In Favor of	Amount
.....	.....	.....	.....
.....	.....	.....	.....
.....	.....	.....	.....
.....	.....	.....	.....
.....	.....	.....	.....
.....	.....	.....	.....

Form 117. Hotel Cash Disbursements Record

no reason exists why a hotel should violate the principles of a proper cash system as set forth in the former consideration of cash.

16. Stores

In a hotel or restaurant all stores must be properly accounted for. A perpetual inventory should be kept, which from time to time should be checked against the general ledger account with Stores and with the actual goods. Some hotels take a physical inventory of stores once a week.

Stores should be delivered only on written order. A report of goods delivered is made daily and sent to the auditing department so that the proper departments will be charged and Stores credited.

17. Dish Breakage

The breakage of dishes is an important item of expense in every hotel. Based on a yearly estimate, a

monthly charge should be made to Dining Room Expense account and credited to a proper reserve account. Dishes replaced are charged against this reserve.

18. Rooms Occupied

One difficulty presenting itself in hotel accounting is the verification of receipts from occupied rooms.

Complimentary guests, who may be entertained without charge, should be required to register in the regular manner, and an account should be opened for each one, earmarked either by the conventional double tick mark (√√) used in most hotels for this purpose, or by some other means so that the account shows clearly that no charge is to be made. If the ordinary service charges are carried to this account in the regular way, the extent of the gratuity is shown.

Sometimes persons connected with the management attempt to give service without charge, keeping no record whatsoever, for the purpose of defrauding the owners. Unless a separate record be kept of the rooms occupied, such fraud is difficult to detect. If the housekeeper be required to render a daily report of rooms occupied, a fairly satisfactory basis will be secured for determining whether or not every person occupying rooms in the hotel is being charged properly in the accounts. In this connection, also, the departure record mentioned above is useful.

19. Departure Record

In some hotels a departure book is kept in which is entered the name of each guest and the time when he leaves, or better, the time of arrival and departure of

each guest. This record should be kept by someone not on the regular office force so that the facts recorded may be used as a check upon the guest charges shown on the regular books of account.

20. Monthly Earnings

When a guest has settled his account, the amount paid is entered in the cash receipts register (Form 115) and distributed among the proper departments. At the end of the month, the column totals are credited to the proper income accounts on the general ledger, and Cash is debited. At the end of the month all unpaid balances, even though not yet due, are ascertained and journalized, so that each month will show its full earnings. At the beginning of the next month, these entries are reversed so that the income accounts will not receive credit twice. Full credit will be taken up when balances are settled.

21. Pro Forma Statement of Profit and Loss

A monthly statement of profit and loss for a hotel is presented below.

STATEMENT OF PROFIT AND LOSS

Month of_____19____

Room Revenue		$.....
Less:		
Wages, etc.	$.....	
Depreciation of Furniture and Fixtures	.....	.....
Net Income from Rooms		$.....

Dining Room Revenue		$.....	
Less:			
Wages, etc	$.....		
Depreciation of Furniture and Fixtures	.....		
Breakage	.....		
Kitchen Expenses $.....			
Depreciation of Kitchen Equipment	.....	.....	
Supplies	.....	.....	
Net Income from Dining Room			.....
Cigar Stand Revenue		$.....	
Less:			
Wages, etc	$.....		
Depreciation of Furniture and Fixtures	.....		
Supplies	.....	.....	
Net Income from Cigar Stand			.....
Miscellaneous Revenue—Telephone, etc			.....
Total Income from Operation			$.....
Deductions from Income:			
Taxes (Mo. Charge plus License)		$.....	
Insurance (Mo. Charge)		.....	
Management Expense		.....	
General Expense		.....	.....
Net Profit for Month			$.....

CHAPTER XXXVII

CLUBS

1. Character of Club Accounting

A club is operated not for profit but for congeniality, social intercourse, or to advance a certain cause. If its expenses do not exceed its income, the result is satisfactory. If income exceeds expenses, the surplus is used to further the interests of the club. Because a club is not a business venture, it sometimes is conducted in an unbusinesslike way. Yet it resembles a trading enterprise, because it sells meals, drinks, cigars, etc., to members and their friends. Its accounts ought to be systematic and accurate, the same principles being applied that govern the keeping of accounts for any ordinary business enterprise.

2. Classification of Accounts

The following general outline shows the principal ledger accounts that are necessary in a well-managed club system. More may be added if desired.

BALANCE SHEET ACCOUNTS

Assets

Fixed:

- Land
- Buildings
- Furniture and Fixtures
- Tools and Outside Equipment
- Bond Sinking Fund

Current:
- Cash
  - On Hand
  - In Bank
- House Accounts
- Unpaid Dues
- Inventories of Supplies

Liabilities

Fixed:
- Mortgage Payable
- Bonds

Current:
- Accounts Payable
- Notes Payable
- Bond Interest
- Mortgage Interest
- Notes Payable Interest
- Taxes

Proprietorship

Reserves
Surplus

PROFIT AND LOSS ACCOUNTS

(Generally called Income and Expense)

Income

General
- Yearly Dues
- Initiation Fees
- Miscellaneous

Restaurant
- Meals
- Cigars

Expenses

General
- Management Salaries

Office Supplies
Stationery and Printing
Telephone and Telegrams
Heat and Light
Repairs and Maintenance
Taxes
Insurance
Depreciation
    Buildings
    Furniture and Fixtures
Miscellaneous
Restaurant
    Meals
    Cigars
Wages
Supplies
Depreciation
    Furniture and Fixtures
    Equipment
Breakage
Miscellaneous

3. Records Required

The following bookkeeping records cover the requirements of a club and establish an effective accounting system.

1. General journal
2. General ledger
3. Charge ticket
4. Cash book
5. House ledger
6. Voucher record
7. Stores record
8. Membership register

4. Dues and Fees

In a club the dues of members are the most important source of income. They may be of different kinds, as set forth in the by-laws. No costs offset the receipt of dues; they are all profit. They are incident to membership and must be paid whether the club privileges are made use of or not. Usually, however, because of the easy-going methods referred to, a considerable proportion of the dues is lost by failure to push collection.

Every member pays an initiation fee of some sort at the time of joining a club; until this fee is paid no one can be considered a member. In a prosperous club the initiation fees also are considered as capital receipts and are used for the same purposes as life membership dues.

5. Life Memberships

A life membership is paid for but once. It is usually not considered an operating profit if the club is at all prosperous. Such dues are considered capital receipts and as such are used for bond redemption, additions to the clubhouse or other capital investments. A life membership may at times be transferred, by the payment of a transfer fee and upon consent of the membership committee; or, in some instances, perpetual memberships are issued that may be considered personal property and part of the member's estate, to be transferred by his executor upon his death.

6. Unprofitable Activities

Because of the very nature of a club's function, it frequently is necessary to conduct some of its activities

at an actual loss. The club restaurant is a common example of this. Members demand the best of everything, but most of them make only an infrequent use of the club's facilities. Therefore a large number of employees must be kept so that service will be rapid and satisfactory when the demand comes, notwithstanding the fact that many of these employees can be kept busy only part of the time. As a result the club restaurant generally shows a loss; but the maintenance of it, although unprofitable, cannot be eliminated.

7. House Accounts

The accounts of the members with the various operating departments are known as "house accounts." They are handled in various ways, but the basis of the house account is some sort of ticket made out by the member or an employee.

In a large club this ticket is signed by the member and sent to the office. If the amount designated is paid before the member leaves, it is handled as a cash sale. The ticket carries a number and is entered, whether cash sale or charge sale, in a daily record in its numerical order. This record contains columns for number, for departments which are to receive credit, and two debit columns, one for cash sales and one for charge sales. Next to the charge sales column is a column in which is entered the member's name so that the proper charge may later be made in his ledger account. The totals of the credit columns are posted to the credit of the proper departments, the total of the charge column is debited to the general ledger account which controls the house account ledger. The total of the cash sales

COUNTRY CLUB
MEMBERS LEDGER

NAME	ADDRESS	PROPOSED BY	ADMITTED	
.....	.....	.....	.....	...
.....	.....	.....	.....	...
.....	.....	.....	.....	...
.....	.....	.....	.....	...

OF_____
FOR YEAR_____

INITIATION FEE	ANNUAL DUES	FIRST QUARTER		SECOND QUARTER		THIRD QUARTER		FOURTH QUARTER	
		AMOUNT	DATE PAID	AMOUNT	DATE PAID	AMOUNT	DATE PAID	AMOUNT	DATE PAID
.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....	.....	.....	.....	.....

Form 118. Club Membership Ledger (left- and right-hand pages)

column is compared with the cash book, and from the latter record the charge to cash is secured. Other methods are used but the one indicated is representative.

8. Membership Ledger

A membership ledger should be arranged to cover several years in order to avoid rewriting members' names. To this end, the space on each page may be divided up so that only five or six names are set up per page. If each name takes up six lines, a record for six years is secured. Form 118 covers two pages of an open book. It is one type of "Boston ledger."

9. Special Subscriptions

A subscription for any purpose connected with the operation of the club should be considered as part of the income for the year. If for a purpose not connected with operation, it is not income, and should be credited to a special account showing the purpose of the subscription. When the money secured has been paid out for the special purpose, the special account is closed.

10. Closing the Books

Club accounts should be kept in a businesslike manner so that it will be possible to show all income and expense applicable to each month or fiscal period.

The accounts with each department should be kept separately so that the operative result of each department can be ascertained.

The direct expenses should be separated from the indirect. The various committees should be charged with their expenses and credited with returns secured.

CHAPTER XXXVIII

BUILDING CONTRACTORS

1. The Building Contractor

The building contractor is often confronted with the need for system. He has a number of small jobs on his hands, and also, perhaps, a few larger ones. Some of this work he has given out to subcontractors, wholly or in part. So far as the owner is concerned, the building contractor alone is responsible for the work, the subcontractors not entering into any direct relationship with the owner.

2. Records Required

The scope of the business controls the books and records that will be used. At least, however, there should be:

1. General journal
2. General ledger
3. Cash book
4. Voucher register
5. Contract register
6. Subcontract register
7. Contract cost sheet
8. Subcontract payment sheet
9. Pay-roll sheet
10. Material requisitions
11. Stores record

3. Numbering Contracts

Every contract should be given a number to facilitate identifying the contract at any time and to eliminate chances of confusion. When a contract is secured, a number is given to it at once, and it is known by this number until finally closed out. The contract numbers should of course run serially. When a subcontract is given out, this also is given a serial number. The subcontract number is generally combined with the main contract number. If, for example, a general contract is number 10, the first subcontract under it may be numbered 10X1, the letter X separating the two numbers. Numbering in this way identifies each general and each subcontract, and ties up the subcontract to the main agreement.

Contracts are filed by numbers. All papers relating to them are filed together, each carrying the proper number for purposes of identification.

4. The Contract and Subcontract Register

General contracts and subcontracts should be entered in registers. Such registers help in keeping available for ready reference the essential facts concerning each general and subcontract.

5. Contract Cost Sheet

After a contract is entered on the contract register, a contract cost sheet (Form 119) is started. As each subcontract is entered, a subcontract payment sheet (Form 120) is made up and filed with the contract cost sheet, of which it is really a subsidiary record. The charges for this contract cost sheet are gathered from

CONTRACT COST SHEET

No._____

Name_____

Address_____

Date	Explanatory Detail	Vo. No.	Total	Labor	Material	Expense	Subcontracts	
							No.	Amount

Form 119. Contract Cost Sheet

SUBCONTRACT PAYMENT SHEET

No._____

Subcontractor_____ $_____

Address_____

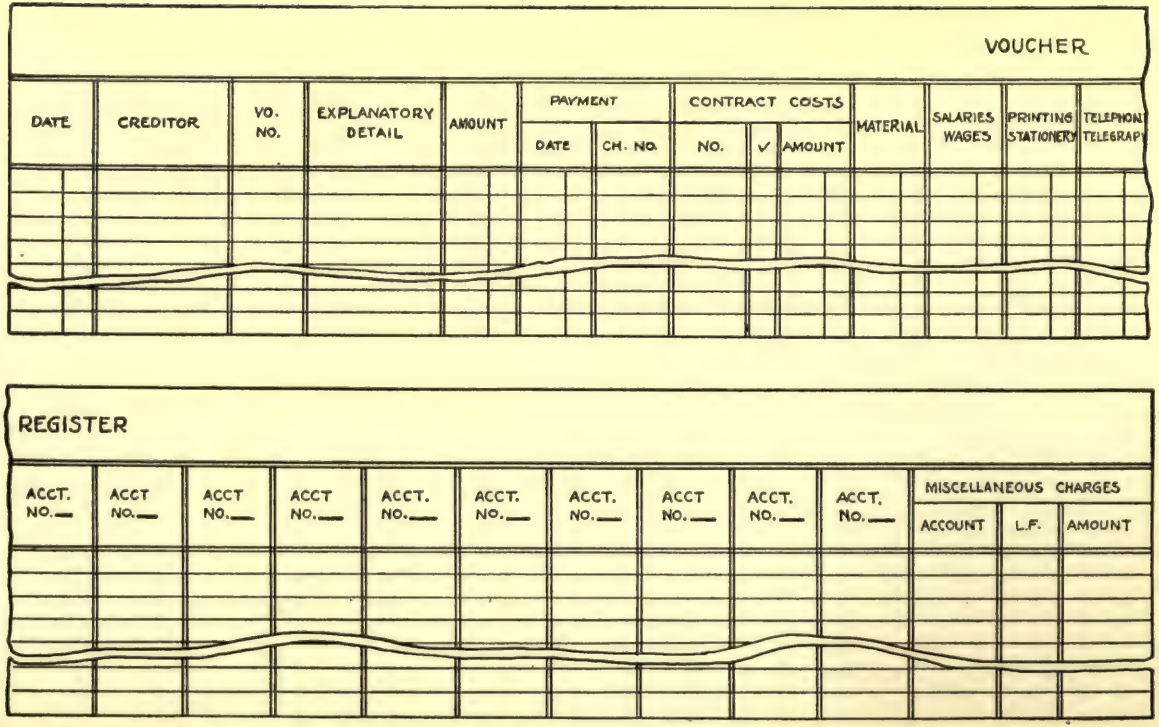
Date	Explanatory Detail	Vo. No.	Paid On Account	Total On Account	Due	Remarks

Form 120. Subcontract Payment Sheet

the pay-roll record, material requisitions, and audited vouchers. These various contract cost sheets form the detail ledger which on the general ledger is controlled by the account with Construction.

6. Voucher Register

The ruling given in Form 121 for the voucher register may be considered standard, although the size of the register depends upon the business in question. The distribution columns need explanation. The most important item to be provided for is that of the cost of



Form 121. Contractor's Voucher Register (left- and right-hand pages)

contracts. On the general ledger an account with Cost of Contracts is opened. It is a controlling account covering what might be called the contract cost ledger; it is charged with total costs and credited with amounts that have been charged to owners. Its balance shows the value of contracts for work in the course of construction. The various expense accounts are next provided for. If there are many of them, and if provision for them upon the register will make that record cumbersome, the detail distribution may be carried in a subsidiary record, and only a controlling column carried on the register.

7. Materials

A proper accounting for materials is necessary for any contractor. Certain materials will be kept in stock and certain ones will not. Every withdrawal of material should be based upon a properly executed requisition. If these requisitions are not too many, they may be posted individually to the proper accounts on the general ledger and the cost ledger. The general ledger accounts here would be Construction account, which is debited, and Materials account, which is credited. These two are controlling accounts, controlling the various jobs in progress as shown by the contract cost ledger and the various materials accounts shown by the stores ledger. If the requisitions are numerous, it may be necessary to sort them by jobs and post each job total.

8. Labor

The proper preparation of the pay-roll demands that a fixed date of payment be set. Inasmuch as work

in progress may be at a great distance from the office, a sufficient number of days must be allowed for time reports to come in and then for making up the pay-roll.

When the pay-roll voucher is drawn, the distribution is made to the proper contracts and the proper entries are then made on the general ledger. When the pay-roll check is drawn, the Pay-Roll account is charged. When each contract is charged, the Pay-Roll account is credited and the controlling account with Construction is charged.

9. Subcontract Payments

As each partial payment to subcontractors becomes due, it should be charged at once to the contract cost. If other methods are followed, such as charging the total amount of the subcontract at the time it is let, or waiting until the subcontract is completed before making any charge, the contractor's records during the progress of the job will fail to show the true conditions of affairs. The cost sheet is charged from the voucher for the amount of each payment, and this same amount is then entered on the subcontract payment register. The payments, as displayed in the subcontract payment sheets for all subcontracts concerned with a general contract, equal in amount the total of the contracts column on the contract cost sheet.

10. Periodical Charges to Owners

Even though the contract existing between the owner and the contractor may contain special terms of payment, charges are usually billed periodically. At

least three copies of the bill are necessary. The original, accompanied by or referring to the architect's certificate, is sent to the owner. One copy is filed in numerical order and from this copy postings are made to the account with the owner and to the controlling account for construction. The other copy is filed with the original contract.

11. Profit and Loss

The costs of the work billed during a certain period are secured from the cost records. These total costs are credited to the controlling account with Contract Costs and charged to the Contracts Charged account. Profit and loss is then easily secured.

If the various contract accounts representing uncompleted work have been charged with any part of the estimated profit to be realized when the contract is finished, the amount so estimated should be carefully investigated. Although it is regarded as a cautious practice, in view of possible contingencies, to leave out of account all profit on uncompleted contracts, such practice is unnecessary; in fact, in the case of large contracts it would not be proper.

A portion of the anticipated profit on a whole contract, based on the proportion that has been finished, and estimated conservatively, must be regarded as actual income. The amount of such an estimate should be charged, however, to a special account and not direct to the contract accounts.

Contracts in progress may be shown on the balance sheet as indicated below. In a similar way, a loss on any contract in progress may be shown.

Contracts in Progress, cost to date.....	$.....	
Estimated Profits already earned thereon...	.....	
	$.....	
Less Receipts on Account.....	.....	
Net Equity in Contracts in Progress.....		$.....

CHAPTER XXXIX

COST ACCOUNTS OF A MANUFACTURING ENTERPRISE

1. Double-Entry Method and Cost Records

The double-entry method of accounting permits costs to be recorded in any desired manner. In fact, whenever a profit and loss statement is produced from a set of double-entry records, an analysis of costs is presented in more or less detailed form.

Cost accounting is thus by no means peculiar to manufacturing concerns. With any enterprise double-entry principles may be made use of in such a way that production and operation costs are worked out on the basis of an established unit or units. In the case of a manufacturing enterprise this unit would be some unit of product manufactured.

2. The Problem

Every manufacturing concern produces and sells some kind of product. Its system must provide for determining the cost of each unit of production turned out, and the profit secured on that unit. The cost of making sales may be a considerable item of cost. Sales are for either cash or credit. The following points must be considered by every manufacturing enterprise in reference to the problem of costs:

1. Cost of doing business
   (a) Production

(b) Selling
(c) Administration
(d) Capital expense
Charges for rent, interest, etc.
Plant expense

2. Amount of business done
3. Profits and losses

The accounting system in use must provide an intelligible record of these factors in the same manner as required for a retail or wholesale establishment.

The accounts used should be planned according to the layout just shown. They should not be too many in number and should provide for recording all charges and for the easy preparation of the business statements.

3. Materials

The amount of raw material purchases has, usually, no direct relation to production cost, because of the material carried in stock. The amount of the inventory on hand should depend upon the current price and the quantity needed for immediate consumption. Therefore, materials when purchased should not, as a general rule, be charged directly to production. They are charged to a Stores account, credited out from it, and charged to production as used. To take materials from stores for use in production, a requisition is filled out and approved.

4. Labor

As labor is expended in one way or another, time slips are made out either by the workman himself or by a timekeeper. These time slips show against what ac-

counts the labor has accumulated, and their amounts are distributed to the appropriate accounts.

5. Overhead

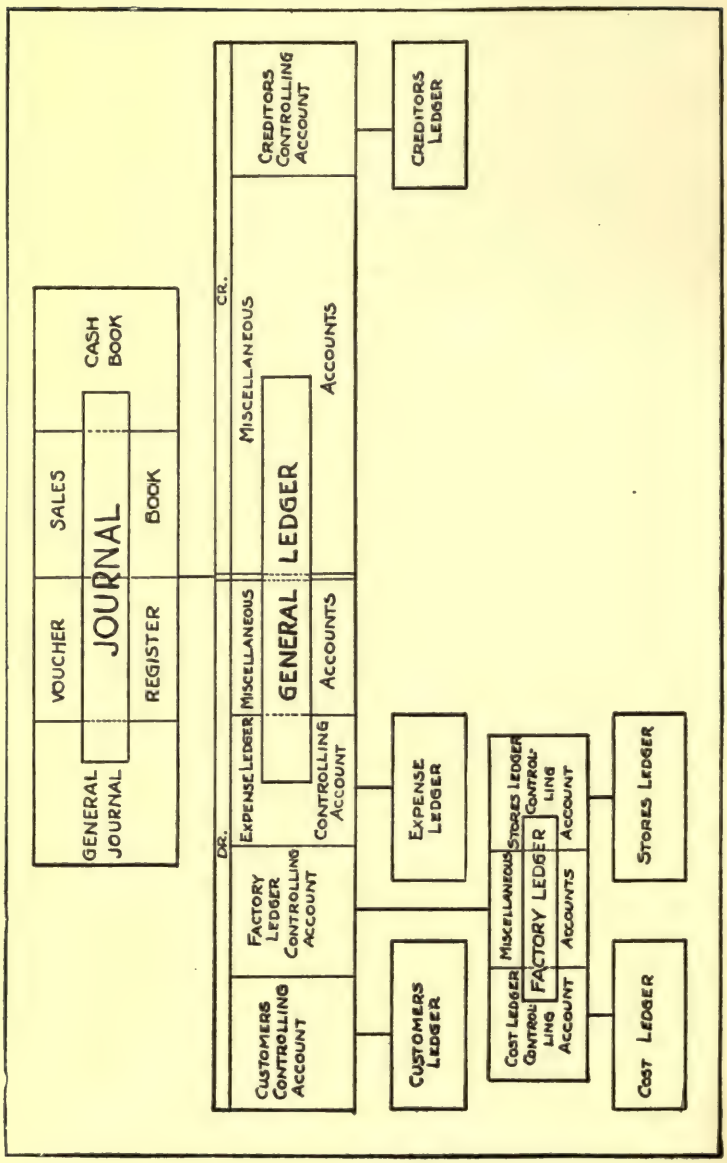
Accounting for overhead expense causes considerable difficulty. Its proper distribution must be secured. Such distribution may be made directly against the accounts affected as soon as the expense is incurred, or the charges may be accumulated in certain "gathering up" accounts from which distribution is made later. Improper distribution of overhead charges will impair the accuracy of the cost of production as displayed in the accounts kept.

The other costs as shown in § 2 need no comment.

6. The Records

The records required will depend entirely upon the kind of product manufactured. For the sake of completeness, the list of records presented below is not confined to cost accounts but includes those of the whole business. It represents the books likely to be found in any establishment of considerable size

1. Journal (miscellaneous entries)
2. Voucher register (purchases of all kinds)
3. Sales book
4. Cash book
5. Pay-roll record
6. General ledger
7. Customers ledger
8. Creditors ledger
9. Expense ledger
   (a) Production



Form 122. Chart of Controlling Accounts—Manufacturing Concern

(b) Selling
(c) Administration
(d) Capital

10. Factory ledger
11. Cost ledger
12. Stores ledger

The rulings of these records should follow the requirements as set out in the classification of accounts in use, and provide for the proper controlling accounts.

Certain of these records are familiar. A few may not be. The cost ledger records the material, labor, and overhead of all orders in progress through the factory, each order being shown by number.

The factory ledger contains the cost ledger controlling account, the stores ledger controlling account, and miscellaneous factory accounts. It is represented on the general ledger by a controlling account. The diagram indicated in Form 122 may clarify the controlling account principle as applied to manufacturing.

The factory journal, if used, is regular in form. Monthly totals of the stores ledger and the cost ledger are posted from this book to the factory ledger. The various labor and overhead accounts are passed through this record.

These sections on manufacturing cost accounts very briefly suggest the scope of the subject. It is covered in a thorough and detailed manner in Volume III.

CHAPTER XL

COST ACCOUNTS OF A TRADING ENTERPRISE

1. Costs Ascertained by Departments

The effective control that an accurate record of costs affords over the expense of doing business has during the last decade attracted the attention of many large retail and wholesale trading enterprises. In consequence, accountants are frequently asked to introduce a cost system into a business of this class. The primary object in such a case is to ascertain the profit or loss on the different kinds of goods sold and thus indicate the relative efficiency of departments. The cost problem involved presents no difficulties—except the common one of the distribution of overhead expense—and resolves itself into a computation and comparative analysis of trading results by departments.

2. Direct Charges

A trading enterprise buys goods only for resale; its merchandise naturally classifies itself by departments. Therefore the charges that are analogous to material and labor in a factory are represented by purchases made and wages paid in the various departments. By allotting a column in the purchase journal to each department and by means of a similar classification of the pay-roll, the total of direct charges to be debited to each department is readily ascertained.

3. General Features of Expense Distribution

Such difficulties as arise are connected with the proper distribution of overhead represented by light, heat and power, indirect wages, building maintenance, deliveries, and other indirect charges.

Space does not permit a detailed discussion of cost accounting. This in treated in Volumn III. But it will be worth while—taking a department store as the most obvious example of a trading concern which is departmentalized—to summarize the salient features of a system for distributing expense.

1. Departmentalization of expense. The best modern practice is to ascertain the amount of each item of expense chargeable to the various departments. This means that the expense of operation and maintenance, supervision and clerk hire, accounting and statistical work, as well as a score or more of other items, all have to be carefully departmentalized.

2. Apportionment on basis of floor space. There are many items of expense which are most equitably distributed on the basis of the productive floor space occupied by departments. This means the value of the space actually occupied by selling departments. Among the items which are most equitably distributed on this basis are: rent, when the store is rented; light, heat, and ventilation expense; janitor service; repairs and maintenance of sprinkler system; if a floor walker covers more than one department when making his rounds, his time is best apportioned to the departments under his charge on the basis of the floor area covered by the departments.

3. Cash system expense. In stores where the sys-

tem of cash carriers is rented on a basis of a certain charge per station, it is obvious that the rental charge should be distributed over departments in proportion to the number of stations in each department. Similarly in case the carrier system is owned by the store, the expense of maintenance, equipment, supplies, and power should be allocated to departments on the basis of stations. The fact should be noted, however, that the wages of cashiers at the central station are not proportional to the number of stations but rather to the number of sales slips received from each department. The number of departmental sales slips is therefore the best basis for distributing the wages of cashiers at the central station.

4. Accounting department expense. The work of the accounting department consists mainly in handling purchases, sales, credits, and monthly statements. Ordinarily the expense of purchasing is added to the invoice price in order to arrive at the C.L.D. (Cost Laid Down) price. The salaries of those clerks handling sales and credits should be apportioned to departments on the basis of the number of sales slips handled for each, and the expense of the billing clerks is best distributed on the basis of the number of bills entered.

5. Delivery expense. This item should be distributed on the basis of the number of packages delivered for each department.

6. Telephone expense. The best basis for distributing telephone expense is the average number of calls directly chargeable to each department.

7. Advertising expense. Advertising in newspapers is best charged against the departments directly

advertised, if that is possible. However, charges for newspaper advertising of a general character, through which all departments get some benefit, should be spread over departments in the same ratio as direct charges.

8. Window dressing expense. The natural course of procedure is to distribute the expense of window dressing in proportion to the space allotted to each department.

9. Elevator expense. It is obvious that no part of the expense of operating the elevators should be charged to the departments occupying space on the street floor. The most approved plan is to distribute the expense of all passenger elevators on the basis of the number of sales by departments in the basement and upper floors.

10. Special service expense. When a store maintains special departments such as an information bureau, post office, theater ticket stand, railroad ticket office, and so on, it is the best practice to make a distribution on the basis of the number of persons making purchases in the various departments, as shown by the number of sales tickets in each department.

11. Educational department expense. If a store operates an educational department for the purpose of increasing the efficiency of its employees it would seem the best practice to distribute the expense on the basis of the sales slips.

12. Supplies department expense. It is quite usual for a store to operate a supplies stockroom and where this is done the most equitable method of procedure usually is to distribute the expense on the basis of the value of supplies issued to the various departments.

13. Insurance on stock. The best plan is to spread the insurance on stock over the different departments on the basis of the average inventory value of stock.

14. Employment bureau and liability insurance. The best practice seems to be in favor of distributing the expense of the employment bureau and liability insurance on the basis of the departmental pay-rolls.

15. General expense. There are of course many expenses of a general character which cannot be distributed on any logical basis. Such expenses are those incurred for general advertising and publicity not in newspapers or on bill-boards, etc.; general transportation; charity; legal protection; and so on. In the absence of any real reason for using any of the different methods above referred to, it seems to be admissible to give each department an equal share of the so-called general expenses.

4. Specific Problem Considered

Cost calculations are simplified when items of a like character are grouped together and arranged in schedule form for final assembly on a summary cost sheet. The accounts in a trading enterprise naturally group themselves under the following heads:

1. Opening Inventory
2. Rental Expense
3. Light, Heat, and Power
4. Fixed Charges
5. Pay-Roll
6. Purchases
7. Cost of Sales (Net)
8. Sales (Net)

The compilation of each of these schedules will now be discussed in detail.

5. Schedule 1—Opening Inventory

The cost accounts of a trading concern are opened with an inventory of the merchandise classified by departments.

6. Schedule 2—Rental Expense

The most convenient and accurate method of distributing rental expense is to apportion it over departments in proportion to the estimated rental value of the space they occupy. If the building is rented the amount of the rent is fixed and each department's share can be charged directly to the department affected; but if the merchant is his own landlord he has to keep an account for rental expense in order to ascertain the cost of floor space upon which other indirect charges can be distributed.

"Rental Expense" comprises usually the following charges to which supposititious figures are fixed in order to follow their distribution over departments:

RENTAL EXPENSE

Depreciation	$ 50,000.00
Insurance	5,000.00
Taxes	1,000.00
Interest	20,000.00
Repairs	10,000.00
Labor, Cleaning	20,000.00
Supplies	3,000.00
Sundries	1,000.00
	$110,000.00

The next subject for consideration is how to apportion the total rental expense to the different floors and departments. Suppose, for example, that the store occupied by the owner of a furnishing and clothing business has a basement and six floors. Then the relative rental values of the various floors can be estimated with sufficient accuracy, as shown below, presuming the rental value of the building to be $110,000.

Basement	5%
1st floor	45%
2nd floor	15%
3rd floor	10%
4th floor	10%
5th floor	10%
6th floor	5%
	100%

Space Occupied by Departments. It may be assumed that the area of a floor is found to be 80,000 square feet or 560,000 square feet for the whole building. In addition to the foregoing information it is necessary to know how many square feet each department occupies on a floor, before the rental expense can be finally apportioned. The space so occupied may be considered to be as follows:

Basement:	Square Feet
Light, Heat, and Power Plant	40,000
Storehouse, Packing, and Shipping Supplies	40,000
	80,000
First Floor:	
Hats and Caps	20,000
Gloves and Leather Goods	10,000

Umbrellas and Canes	10,000
Hosiery and Underwear	20,000
Neckties and Novelty Goods	10,000
Ready-Made Shirts	10,000
	80,000

The calculation of the departmental cost of rental expense can now be made. The basement, equally divided between two departments as shown above, is figured at 5% of the annual rental expense of $110,000, making $2,750 chargeable to each department. The same procedure gives the rental expense to be charged to the other departments. The calculation follows:

RENTAL EXPENSE

Basement, 5% of $110,000		$ 5,500.00
Light, Heat, and Power Plant (½)	$ 2,750.00	
Storehouse, Packing, and Shipping Supplies (½)	2,750.00	
First Floor 45% of $110,000		49,500.00
Hats and Caps (¼)	$12,375.00	
Gloves and Leather Goods (⅛)	6,187.50	
Umbrellas and Canes (⅛)	6,187.50	
Hosiery and Underwear (¼)	12,375.00	
Neckties and Novelty Goods (⅛)	6,187.50	
Ready-Made Shirts (⅛)	6,187.50	

7. Schedule 3—Light, Heat, and Power

The distribution of light, heat, and power to the various departments is made on the same basis as that of rental expense. Presuming that the merchant owns his own power plant, the annual expense of operating the plant may be expressed by the following figures:

Depreciation	$ 1,750.00
Insurance	500.00
Taxes	100.00
Interest	2,000.00
Repairs	1,000.00
Labor—Engineer and Fireman	4,800.00
Coal and Wood	11,000.00
Supplies, Including Oils and Waste	1,500.00
Sundries	600.00
	$23,250.00
Amount Transferred from Rental Expense	2,750.00
	$26,000.00

Here again the various departments are charged for light, heat, and power expense in proportion to the area occupied as shown by Schedule 2.

After deducting the space occupied by the light, heat, and power plant, 520,000 square feet remain, which divided into the $26,000 gives a charge of $.05 per square foot used in arriving at the foregoing light, heat, and power costs.

The distribution for each floor would be:

Basement:	Square Feet	Amount
Light, Heat, and Power Plant	(No Charge)	
Storehouse, Packing, and Shipping Supplies	40,000	$2,000.00
First Floor:		
Hats and Caps	20,000	1,000.00
Gloves and Leather Goods	10,000	500.00
Umbrellas and Canes	10,000	500.00
Hosiery and Underwear	20,000	1,000.00
Neckties and Novelty Goods	10,000	500.00
Ready-Made Shirts	10,000	500.00

8. Schedule 4—Fixed Charges on Furniture and Fixtures

A distribution must be made of the depreciation and insurance charges on furniture and fixtures in the various departments, based on the valuation of the furniture and fixtures in each department.

9. Schedule 5—Pay-Roll for Office and Sales Force

In order to make a complete departmentalization of the expense of doing business it is necessary to analyze the pay-roll for the office and sales force as a basis for its distribution.

10. Schedule 6—Purchases

Purchases are distributed according to general ledger account classifications. An analysis of purchases is made currently in the voucher record, one column being given to each account classification. Thus at the end of an accounting period all vendors' invoices are found classified according to departments.

11. Schedule 7—Cost of Sales (Net)

A schedule of the cost of sales is prepared by pricing the sales slips of each department at cost.

12. Schedule 8—Sales (Net)

It is necessary also to recapitulate the individual sales at their selling prices in order to ascertain the amount of business done by each department. Then the excess of the sales over the cost of sales for any particular department gives the gross profit on the department's sales for the period.

ANALYSIS OF PROFIT ON SALES

Department	Sales	Cost of Sales	Selling Expense	Total	Profit	Loss
Hats and Caps	$ 95,000.00	$ 50,000.00	$ 34,094.00	$ 84,094.00	$10,906.00	
Gloves and Leather Goods	60,000.00	40,000.00	13,862.00	53,862.00	6,138.00	
Umbrellas and Canes	30,000.00	15,000.00	10,807.50	25,807.50	4,192.50	
Hosiery and Underwear	40,000.00	20,000.00	20,272.00	40,272.00		$ 272.00
Neckties and Novelty Goods	35,000.00	15,000.00	12,176.50	27,176.50	7,823.50	
Ready-Made Shirts	40,000.00	30,000.00	14,677.50	44,677.50		4,677.50
Men's Clothing	240,000.00	168,000.00	47,258.00	215,258.00	24,742.00	
Boys' Clothing	170,000.00	112,000.00	33,173.00	145,173.00	24,827.00	
Bath-Robes and Pajamas	20,000.00	10,000.00	6,068.50	16,068.50	3,931.50	
Shoes	60,000.00	40,000.00	18,640.00	58,640.00	1,360.00	
Trunks	13,000.00	12,000.00	9,057.00	21,057.00		8,057.00
Custom Shirts	27,000.00	10,000.00	18,164.00	28,164.00		1,164.00
Total	$830,000.00	$522,000.00	$238,250.00	$760,250.00	$83,920.50	$14,170.50
Profit on Trading	.....	.....	.....	.....	$69,750.00	

Form 123. Analysis of Profit on Sales—Trading Concern

13. Analysis of Profit on Sales

An analysis can now be made of the profit on sales for the period according to departments. The cost of sales plus the selling expense deducted from gross sales gives the gross profit or loss on sales. The selling expense is ascertained by summarizing each kind of expense chargeable to each department and prorating any general expense items on the same basis as indirect charges. The cost of sales and the amount of sales are obtained from Schedules 7 and 8 respectively. The form of statement is illustrated in Form 123.

It will be noticed from the foregoing statement that eight departments have made a profit and four departments show a loss, resulting in a total profit on trading of $69,750.

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